

INVESTMENT POLICY STATEMENT
("IPS") DEVELOPMENT TOOLKIT FOR
403(b) CHURCH PLANS

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INTRODUCTION

An Investment Policy Statement (“IPS”) is a formal written document designed to guide plan fiduciaries as they decide on investment options to include in the plan and evaluate the performance of those investments over time.

Why create an IPS?

- You, as the investment committee and 403(b) plan fiduciary, are responsible for effectively monitoring and overseeing the retirement plan investment options.
- An IPS establishes a framework for ongoing decision-making, establishes a consistent approach to investment determinations and monitoring, drives the agenda for committee meetings, and helps to demonstrate that plan sponsors followed a prudent process for choosing and evaluating plan investment options. This framework should be drafted with appropriately broad parameters to ensure flexibility when possible.
- An IPS is a best practice from a fiduciary-governance perspective, but it is not a legal requirement. Note, however, that once drafted, failure to comply with your organization’s IPS can be considered a breach of your fiduciary obligations.
- As each type of retirement and deferred compensation plan has different pools of employees and potentially different investment strategies, we believe it is best practice to draft an IPS for each type of plan offered by your organization. This toolkit focuses on developing an IPS for a 403(b) church retirement plan.

This toolkit provides several considerations, decision points and samples of text for each section, and it should be used as a guide only. Please consult your own tax and legal counsel to help you finalize your IPS.

1. PLAN OVERVIEW

Considerations

This section usually describes the plan and your organization’s reasons for offering and sponsoring this plan for the benefit of your employees. Specifically, the plan overview expressly states that the plan is a church plan and is, therefore, exempt from ERISA.

Decision points

- Which plan or plans will be covered?
- Is the plan a church plan or ERISA plan?
- What type of plan is it (e.g., 403(b)(9), 403(b)(7) or 401(k), etc.)?

Sample text

The 403(b) Retirement Plan for [PLAN SPONSOR LEGAL NAME] (the “Plan”) is intended to give eligible employees an opportunity to prepare for retirement through employer contributions, employee deferrals and earnings on those contributions to individual participant accounts.

This Plan is a retirement income account program described in section 403(b) of the *Internal Revenue Code of 1986* (the “Code”) and a “church plan” within the meaning of section 414(e) of the Code and section 3(33) of the Employee Retirement Income Security Act of 1974 (“ERISA”) and is, therefore, exempt from ERISA. Although exempt from ERISA, this Plan is designed to comply with all applicable law.



GuideStone® established and maintains this Plan in order to provide retirement income security to eligible employees. This Plan is sponsored and adopted by [PLAN SPONSOR LEGAL NAME] (“Plan Sponsor”), a 501(c)(3) nonprofit corporation established under the laws of [STATE OF INCORPORATION]. Plan Sponsor makes the Plan available solely for the exclusive benefit of eligible employees.

Plan Sponsor appoints the [PLAN SPONSOR LEGAL NAME]’s Retirement Plan Oversight Committee (the “Committee”) and delegates authority to the Committee to choose and monitor Plan investments. The Committee will discharge its responsibilities under the Plan(s) solely in the interests of Plan participants and their beneficiaries.

2. STATEMENT OF PURPOSE

Considerations

This section describes the purpose of the IPS and typically states that it is intended to ensure that the Committee makes decisions in a prudent manner when monitoring and overseeing the Plan and its investment options. This section may provide a brief overview of what is contained in the remainder of the IPS.

Decision points

- Will the content of the IPS be general, allowing for more flexibility and adaptability, or will it be detailed with more specific restrictions and requirements?
- Will it support the inclusion of investments compatible with the religious principles of the organization?

Sample text

This IPS will assist the Committee in effectively monitoring and overseeing the Plan’s investment options. Consistent with this IPS, the Committee will discharge its responsibilities under the Plan solely in the interests of Plan participants and their beneficiaries.

For the avoidance of doubt, the Committee will exercise its authority consistent with and in furtherance of the Christian mission of [PLAN SPONSOR LEGAL NAME].

Specifically, this IPS:

- Describes the Plan’s investment objectives,
- Defines the Committee’s roles and responsibilities when overseeing Plan assets,
- Provides guidelines for selecting Plan investments and
- Establishes performance measurement standards and monitoring procedures.

The Committee will review the IPS at least annually and, if appropriate, will amend the IPS to reflect changes in markets, Plan participants’ objectives or other factors relevant to the Plan.

3. INVESTMENT OBJECTIVES

Considerations

This section defines the Plan’s investment objectives that govern the Committee’s selection of investments. An example of one objective is offering Plan participants an appropriate range of investment options necessary for adequate diversification across the investment risk-return spectrum. Any unique needs of the Plan participant population should be considered when establishing objectives.

Decision points

- How will the Plan provide investment approaches to accommodate the needs of a diverse employee population?
- How will the Plan make it possible for any participant to select investments that are diversified and appropriately allocated according to the individual’s risk tolerance and time horizon?

Sample text

Participants vary in their goals, plans for retirement, risk tolerances and levels of investment knowledge. In addition, the employee population within the [PLAN SPONSOR LEGAL NAME]'s industry is widely diverse in education, income and attitudes toward investing for the future. In order to provide all participants with the opportunity to broadly diversify and allocate assets appropriately, the Plan will offer a broad range of investment options within a tiered structure, such as:

- Multi-asset, managed funds, including Target Date Funds with asset allocations that gradually become more conservative as participants approach and move through retirement,
- Actively managed funds, which are broadly diversified within major categories of capitalization and investment styles,
- Passively managed funds with allocations that correlate with widely accepted market indexes and
- Self-directed brokerage accounts.

These investment options will be chosen not only to help meet participants' retirement goals but also to be in alignment with [PLAN SPONSOR LEGAL NAME]'s values as a religious organization. Specifically, when possible, available and appropriate, investment options will be selected with the values and principles of a Christian faith-based organization. Additionally, the Plan's investment options will be chosen with the aim to:

- Offer participants the opportunity to diversify their investments in a manner appropriate to their retirement objectives and risk/return requirements and
- Control costs of administering the Plan.

The Plan will encourage participants to actively prepare for retirement by educating participants to make informed decisions about their investment options.

4. ROLES AND RESPONSIBILITIES

Considerations

This section defines the roles of those responsible for the Plan's investments, e.g., the board, investment committee and service providers like the Plan's trustee and recordkeeper. You should evaluate the collective investment competency of the Committee and determine whether the Committee should retain a third-party advisor to assist you in evaluating certain investment decisions. If a third-party advisor is retained, that decision also should be documented in this section.

- Selecting and monitoring investment options, including their performance, fees and expenses, and
- Establishing and maintaining the IPS.

While the names and service dates of individuals serving on the Committee should be recorded for historical purposes, specifying members by title only will avoid amending the IPS due to personnel changes.

By way of example, you may consider including the following types of individuals on the Committee:

Committee Members' Titles

CFO/Treasurer
VP/Director of Human Resources
Benefits Director/Manager
Legal Counselor
Staff Member

Committee Members' Roles

Committee Chair – Investment Review/Analysis
Co-chair – Plan Administrator and Design
Plan Administrator and Participant Communications
Legal Advisor – Legal Oversight
Employee Representative – Employee Feedback

Decision points

- Which job titles will be included in the investment committee?
- What role will each Committee member play?
- What term of service will apply to staff member representatives?
- Will church membership be a requirement for a certain number of members? (Consider including a percentage of Committee membership that is consistent with governance of the organization (e.g., one Committee member).)
- How many members will be appointed? (Suggestion: Require an odd number of members to avoid ties when voting.)

Sample text

Trustee: The trustee is responsible for holding and investing Plan assets in accordance with the terms of the Plan's *Trust Agreement* (i.e., at the direction of Plan participants). For this Plan, GuideStone, or its successors, is the trustee.

Recordkeeper: The recordkeeper is responsible for maintaining and updating individual account balances, including information regarding Plan contributions, withdrawals and distributions, and otherwise acting on the directions of the Committee or its authorized delegates.

Committee: The Committee is responsible for the oversight of all matters relating to the investment of the Plan's assets. Currently, the members of the Committee are as follows [list titles instead of names]:

- _____
- _____
- _____
- _____
- _____

The primary responsibilities of the Committee are:

- Selecting and monitoring investment options,
- Establishing and maintaining the IPS,
- Monitoring all Plan investment, recordkeeping and administrative fees and expenses,
- Monitoring the performance of the investment options and making changes in investment options when necessary and
- Avoiding prohibited transactions and mitigating conflicts of interest.

The Committee may retain an investment consultant to assist the Committee by offering resources for additional due diligence and education; independent third-party analysis; guidance and recommendations regarding selecting, monitoring and removing investment options; and other assistance deemed advisable.

5. SELECTION OF INVESTMENT OPTIONS

Considerations

This section describes the criteria and procedures for selecting investment funds. Some considerations include:

- Restrictions/unique considerations (e.g., Christian-screened mutual funds as investment options)
- Asset class guidelines
- Default fund selection
- Performance objectives
- Selection process (qualitative factors and quantitative measures such as fees and expenses)

The list of selected investment options may be maintained in an appendix to the IPS.

Decision points

- What number of options will be available to enable participants to invest with diversification without overwhelming them and unnecessarily duplicating asset classes?
- What will be the default fund for those who do not make an active choice?
- Will the description of investment requirements be specific or general?
- To what degree will Christian screening be required?
- What criteria will be used in the selection of investment providers and/or managers?

Examples of criteria include:

- Assets under management
- Organizational longevity and stability
- Adherence to [PLAN SPONSOR LEGAL NAME]'s values
- Track record of performance
- Fee structure
- Services provided



Sample text

The Committee prefers investments that align with the moral and ethical posture of [PLAN SPONSOR LEGAL NAME], since this is a retirement plan of a faith-based organization. Specifically, in accordance with [PLAN SPONSOR LEGAL NAME]'s Christian values and principles, the Plan will generally include investment options that are screened to exclude companies that are publicly recognized as being in the alcohol, tobacco, gambling, pornography or abortion industries.

While offering a variety of investment options is important, efforts will be made to keep the total number of investment options to a reasonable level that balances the benefits of broad diversification with the disadvantages of too many choices.

The asset classes and asset categories approved by the Committee are:

- Stable Value and/or Cash Equivalents
- Bond and Fixed Income
- Large Capitalization U.S. Equity
- Small to Medium Capitalization U.S. Equity
- International Equity

Other asset classes such as Real Estate and Emerging Markets Equities may also be included. While the Committee may determine that additional and/or different asset classes and asset categories are appropriate in the future, it anticipates that the offerings will not change frequently.

6. INVESTMENT MONITORING AND REVIEW

Considerations

This section establishes investment performance measurement standards and monitoring procedures and describes ways to address investment funds failing to satisfy these established standards. Elements for effective monitoring may include:

- A comprehensive formal review at least annually using criteria similar to those applied during the investment selection process
- Investment fund termination process
- Investment fund additions

Note that “[p]oor performance, standing alone, is not sufficient to create a reasonable inference that plan administrators fail[ed] to conduct an adequate investigation. . . . Indeed, a fiduciary may — and often does — retain investments through a period of underperformance as part of a long-range investment strategy.” *White v. Chevron Corp.*, No. 16-CV-0793, 2016 WL 4502808, at *17 (N.D. Cal. Aug. 29, 2016). It is appropriate to consider various factors when determining whether an investment option is still appropriate for Plan participants.

Decision points

- How will performance be measured relative to peers and/or benchmarks?
- What criteria will be used to determine if fees are acceptable, given the services provided?
- Will a watch list be used to identify investment options for more scrutiny if and when they fail to meet certain preset criteria as decided upon by the Committee?
- What are the considerations to add or remove investment options?

Sample text

The Committee generally has determined that it is in the best interest of the Plan’s participants that performance objectives be established for each investment option. The Committee acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee intends to evaluate investment performance from a long-term perspective. Investment option performance will be evaluated in terms of an appropriate market index and the relevant peer group(s). Notwithstanding the foregoing, the ultimate decision to retain or terminate an investment option cannot be made by a formula. It is the Committee’s confidence in the investment option’s ability to accomplish its stated objectives, and the extent to which such objectives are consistent with the investment goals and philosophy of the Plan, that will determine whether an investment option will be retained.

In addition to reviewing the performance of the Plan's investment options, the Committee will periodically review all costs associated with the management of the Plan, including:

- Expense ratios of each investment option against the appropriate peer group and
- Costs to administer the Plan, including recordkeeping.

7. PARTICIPANT EDUCATION AND COMMUNICATION

Considerations

This section is meant to describe how Plan participants will be notified and educated that they control their own investments, are permitted to change investments and can access educational material to assist them in making informed investment decisions.

Decision points

- Will education and communication be stated in terms of required activities or more broadly in terms of goals?
- How will you ensure every eligible employee is made aware of their opportunities? (Note: This is accomplished in part by annual participant disclosures.)
- Will onsite representatives be available?
- What types of online resources are available?

Sample text

Participants will be encouraged to actively prepare for retirement by educating themselves to make informed decisions about their investment options.

- All eligible employees will be notified at least annually of their opportunities to make or change elections with respect to Plan options and account investments.
- Hard copy resources will be available upon request.
- Participants will be provided individualized guidance and education through online resources.
- Onsite representatives will be available for group and individual meetings with participants.

8. PROXY VOTING

Considerations

State whether Plan participants are responsible for voting mutual fund proxies or whether a Plan service provider will do so (e.g., the Plan's trustee or custodian).

Decision points

With regard to supplemental (non-proprietary) funds for which GuideStone is the recordkeeper, the Plan Sponsor votes the mutual fund proxies.

Sample text

Subject to [PLAN SPONSOR LEGAL NAME]'s sole discretion regarding the use of Plan assets and the right of participants to direct investment of their accounts in available investment options, the trustee has the duty to vote on any securities at any time held in the trust. **Notwithstanding the foregoing, [PLAN SPONSOR LEGAL NAME] has the duty to vote mutual fund proxies issued in connection with any supplemental (non-GuideStone/non-proprietary) mutual funds.**



9. POLICY AMENDMENT

Sample text

The Committee may amend this IPS as it deems advisable.

10. COORDINATION WITH THE PLAN

Sample text

Notwithstanding the foregoing, if any term or condition of this IPS conflicts with any term or condition of the Plan, the terms and conditions of the Plan will control.

