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Investment Policy Statements

A guide to developing a statement for your plan

About Investment Policy Statements

An Investment Policy Statement (IPS) is a guide to help fiduciaries make investment decisions. It is not required by the Employee Retirement Income Security Act of 1974 (ERISA), but it is good protection for plan fiduciaries — and the absence of an Investment Policy Statement could work against them in certain circumstances.

The Standard recommends that every plan adopt an Investment Policy Statement, follow it and document that it is being followed.

Many defined contribution plans comply, or attempt to comply, with ERISA Section 404(c). Compliance with this provision and its related regulations relieves fiduciaries of responsibility for the investment decisions of plan participants. However, fiduciaries retain responsibility for selecting and monitoring the investment options offered to participants and are held to the standard of a prudent expert. Without guidelines, selecting investment options from among the growing universe of choices is a haphazard activity.

That underscores the importance of an investment policy describing how investment options will be chosen and monitored. Regardless of actual investment returns, fiduciaries can fulfill their ERISA obligations by adopting and following a sound process.

The Standard offers a sample Investment Policy Statement that can serve as the outline for plan sponsors developing policies appropriate for their own plans. In this brochure, we've identified some items that an Investment Policy Statement should address, but we also recommend that you discuss your Investment Policy Statement with your company's legal counsel.

Developing your Investment Policy Statement

When developing your Investment Policy Statement, keep in mind two things: You're required to either follow the document you create or amend it every time you make a decision that falls outside the rules you've established. In the long run, writing an Investment Policy Statement in broad terms is easier than creating one that is highly specific.

For example, if you mention specific investment options, you will be required to maintain those options or amend your statement if they are not available. Similarly, identifying a specific asset class requires you to always have an option available in that asset class or amend the statement.

As you write your Investment Policy Statement, remember that The Standard, in partnership with StanCorp Investment Advisers, Inc., already performs due diligence work that meets a high standard for selection, monitoring and termination of investment options from our lineup. When you sign an Investment Advisory Agreement with StanCorp Investment Advisers, you receive the *Quarterly Monitoring Report*, which measures your funds against the criteria established in your Investment Policy Statement. Adopting this report as the basis for your periodic evaluation of investment options offered in your plan meets the fiduciary requirements for fund selection and monitoring as established by ERISA, and StanCorp Investment Advisers accepts that fiduciary obligation on your behalf.

You may use the fund monitoring criteria described in the *Quarterly Monitoring Report* as appendices to your Investment Policy Statement for the purposes of describing those criteria. Doing so does not obligate the plan trustees to go through the same steps as the investment advisor, but it does describe the criteria for anyone who has questions about fund monitoring and termination.

With that in mind, the rest of this brochure outlines topics you may want to consider as you develop an Investment Policy Statement for your plan.

An Investment Policy Statement establishes a framework for making investment decisions and managing fiduciary risk. It can include:

- the plan’s purpose
- the plan’s investment goals
- intent to comply with ERISA Section 404(c)
- appropriate asset classes
- the process for selecting, monitoring and terminating investment options
- special provisions and restrictions
- participant communications, including information about investments

Purpose of the plan

Investment Policy Statements are drafted to meet the needs of each individual plan, so a good way to start one is by stating the plan’s purpose. This can be a simple statement:

“The purpose of the ABC Company Retirement Savings Plan is to fund, in part, the retirement needs of plan participants and their beneficiaries. Plan assets are held in the ABC Company Retirement Savings Plan Trust.”

Beyond that, some plan sponsors find it beneficial to include other details, such as the purpose of the Investment Policy Statement itself, the responsibilities of the plan sponsor and investment committee (if one exists) and the framework for decision-making by plan fiduciaries.

Plan investment goals

Use this section to outline the purpose of the plan investments, including variety and number of funds offered. Remember that highly specific language will limit your fund selection while broader language will give you more flexibility. So rather than mentioning specific funds or asset classes, such as sector funds, consider listing a broad objective.

For example:

“The plan will provide a broad range of investment alternatives to give participants the opportunity to diversify their investments among funds with different risk/return characteristics.”

Participant direction and ERISA 404(c)

If the plan sponsor intends to comply with ERISA Section 404(c), the Investment Policy Statement should clearly state that intention and give a brief description of the 404(c) guidelines. It should also state that participants will be allowed to direct the investment of their own account balances and should:

- identify a default investment option if a participant does not select an investment directive
- articulate a participant’s right to transfer account balances between investment options
- state any restrictions on participant transfers of account balances or directive changes for future contributions (daily, monthly, quarterly, etc.)
- provide a summary of disclosures and information about the plan and its investments that is available upon request

Appropriate asset classes

You may want to include a section addressing the variety of asset classes the plan will make available to participants. Some plans choose to identify specific classes; others may simply note that participants will have options including cash equivalent, bond and stock investments.

Again, if you mention specific asset classes or sectors, such as technology or healthcare, you must adhere to the Investment Policy Statement or amend it if the plan cannot offer investments in those asset classes.

Selecting, monitoring and terminating investment options

This section of the Investment Policy Statement establishes the criteria for choosing specific investment options, monitoring them and terminating those that don't measure up to the established standards.

The due diligence process used by The Standard and StanCorp Investment Advisers for recommending the investment options satisfies the standards set forth by ERISA. For plan sponsors who have signed an investment advisory agreement, StanCorp Investment Advisers takes on fiduciary responsibility for selecting and monitoring all investments in the lineup.

If you write your own criteria for selection, monitoring and termination, include:

- performance expectations compared to benchmarks and peer groups
- adherence to investment strategy
- a schedule for ongoing monitoring
- a description of unacceptable performance or other behavior
- how long unacceptable performance can continue before action is required

Participant communications

Section 404(c) guidelines cover much of the information that plan sponsors are required to make available to participants about the plan and its investment options. However, a plan sponsor may want to include additional information in the Investment Policy Statement about the communication and education tactics that will be used to increase participation and enhance participant knowledge about savings rates and asset allocation.

As with other sections, this may be as broad or detailed as the plan sponsor chooses. For example, a plan sponsor may decide that participants will be offered two or three educational seminars each year, or the sponsor might simply state that information about each investment will be made available to plan participants.

Section 404(c) requires several communications be provided to plan participants, and this section is a good place to mention them in the Investment Policy Statement. They include:

- a list of available investment options
- communication about any changes to the available investment options
- information about the risk posed by each investment option
- details about where participants can find additional information about each option

Plan sponsors and participants should carefully consider the investment objectives, risks, charges and expenses of the investment options offered under the retirement plan before investing. The prospectuses for the individual mutual funds and The Standard's Group Variable Annuity Contract and each underlying investment option in both the group variable annuity and group annuity contain this and other important information. Prospectuses may be obtained by calling 877.805.1127. Please read the prospectus carefully before investing. Investments are subject to market risk and fluctuate in value.



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