American Funds®

The right choice for the long term®

Stay on course

An American Funds guide to fiduciary responsibility

Are you a retirement plan fiduciary?

Every ship has a captain; every retirement plan a fiduciary. Under ERISA, the federal law governing the operation of retirement plans, fiduciary status is determined more by function — what a person does — than by title. In addition, the plan sponsor is considered to be a fiduciary. Other fiduciaries for your plan may be:

- anyone with discretionary control over the administration of your retirement plan or the investments offered in the plan
- a person or group of people, such as an administrative committee, specifically named as a fiduciary in the plan document
- anyone who gives investment advice for a fee

If you *are* a fiduciary

This brochure will explain:

- **your responsibilities and duties under ERISA** (pages 1–4)
- **the penalties if you fail to fulfill your duties** (page 5)
- **steps you can take to help protect yourself from liability** (pages 6–14)

What’s expected of you

Consider the origin of the word “fiduciary.” It stems from the Latin “fiducia” meaning “trust” and is closely related to the words “faith” and “fidelity.” These roots reflect proper fiduciary conduct in a retirement plan.

Your responsibility as a fiduciary is as important as you’d think, but not necessarily as difficult as you might imagine. You’re not expected to be an expert in every area of retirement plan management. You can hire others — financial professionals, trustees, attorneys, accountants and administrators — who can offer their expertise for the benefit of everyone invested in the plan. However, while you can delegate certain areas of responsibility, you *can’t* completely eliminate accountability. For example, although you don’t have to personally manage the plan investments, you do need to ensure there’s a diversified portfolio of investment options and monitor ongoing results to see if changes may be warranted. Your financial professional can help.

Being a fiduciary is a matter of complying with the requirements outlined in ERISA — the Employee Retirement Income Security Act of 1974 — which governs the management and operation of retirement plans and protects the interests of those invested in the plan. There are penalties if you fail to comply.

Seven reasons to hire a corporate trustee

ERISA requires that all plan assets be held in trust. A trustee, either a fiduciary self-trustee or a corporate trustee, must be selected for this purpose.

As the number of participants in a retirement plan grows, so do the number of time-consuming administrative functions that must be handled. Hiring a corporate trustee provides a number of benefits not available if you act as trustee yourself, including the following:

1. An extra layer of protection between the fiduciary and plan assets, reducing potential concern that plan assets won’t be used for the exclusive benefit of plan participants and their beneficiaries
2. A “limited scope” audit opinion that’s less expensive and easier to prepare than a full audit
3. Elimination of potential conflicts of interest that might exist if the fiduciary self-trustees the plan
4. Careful handling of all the required administrative functions, including:
   - preparing consolidated financial statements
   - processing plan receipts and disbursements
   - withholding, reporting and remitting taxes on distributions
5. An in-depth knowledge of ERISA’s complex rules and regulations
6. Detailed internal controls of a regulated entity, which can minimize the likelihood of tax or ERISA violations
7. Preparation of standard financial reports according to industry practice, further helping to reduce the costs associated with required plan audits

Find direction in ERISA

A captain at the wheel of a ship always knows his or her course before leaving port. Radios, radar and electronic guidance systems ensure the ship doesn't get lost at sea. And if the way is obscured as the ship nears the shore, a lighthouse may help keep the vessel from running aground.

For fiduciaries, ERISA plots a course of obligation. It's the beacon you must follow to keep your retirement plan on course and out of trouble. But you're *not* alone at the wheel — your plan documents can also serve as a map to steer by, and this brochure can help you navigate your way to compliance.

Your fiduciary obligations

ERISA was established to protect the interests of everyone invested in a retirement plan. It imposes a federal standard of conduct — with specific duties — that must be fulfilled. Every fiduciary must:

1. Demonstrate loyalty to the plan
2. Proceed with prudence
3. Diversify investment options
4. Act in accordance with plan terms

1. Demonstrate loyalty to the plan

The dual roles involved in acting as both a fiduciary and a corporate officer may sometimes seem to present a conflict of interest. Not as far as ERISA is concerned. Your duty lies first and foremost with your responsibilities as a fiduciary. ERISA calls it the "exclusive benefit rule." In essence, you must act solely in the interests of the plan and its participants and beneficiaries.

For example, you *cannot*:

- use plan assets for your own or the company's advantage, even if it also benefits the retirement plan (for example, "borrowing" assets from the plan to cover company debt)
- receive any personal benefit from any party associated with the plan (for example, accepting a monetary payment from the financial professional you select to serve the plan)

2. Proceed with prudence

ERISA requires that you "act with the care, skill, prudence and diligence" that a prudent individual familiar with retirement plan issues would use under similar circumstances. To help protect yourself from liability, you must weigh all of the options for action and keep a due diligence file documenting your fiduciary decisions and the processes used to reach those conclusions.

For example, when choosing plan investment options, you might want to consider such variables as diversification, risk of loss, opportunity for gain, anticipated cash flows, participant demographics and the plan's funding objectives. Having a written record of your decisions and due diligence process may strengthen your defense against a possible claim of fiduciary breach in a court of law.

Prudence also means monitoring investment options and plan expenses on a regular basis. It's up to you to determine if your plan investments continue to produce the desired results or if any need to be replaced. Take care to evaluate and document plan costs that can affect participant account balances, too. These expenses must be reasonable and appropriate.

Your fiduciary obligations (continued)

3. Diversify investment options

We know all about the importance of diversification in our own investment portfolios. By not putting all your eggs in one basket, you may be able to reduce the risk of large losses associated with a single asset — although there are no guarantees. The same theory applies to retirement plans. That's why ERISA requires fiduciaries to diversify the assets in their company retirement plan. You can encourage and enable participants to diversify their portfolios by:

- offering a sufficient number of investments with materially different risk and return characteristics
- covering different investment objectives (growth, growth and income, income and preservation of capital, for instance)
- including funds that focus on investments both inside and outside the United States (such as non-U.S. and global funds)
- selecting bond funds with different rates of maturity (short-term, intermediate-term and long-term)

4. Act in accordance with plan terms

If ERISA charts the course you must keep, then a solid plan document is the step-by-step map you'll use to proceed. The plan document establishes the basic rights and obligations of various parties, as well as the rules of how the plan will be administered. The fiduciary's decisions and actions must be consistent with these rules.

Examples of breaches in fiduciary responsibility

As a plan sponsor, you may be considered to be in breach of your fiduciary duties if you:

- fail to offer a diversified selection of investments
- fail to monitor the plan's investments and, if necessary, replace investment options that aren't producing adequate returns over an appropriate time period
- conduct self-dealing transactions, using plan assets for your own or the company's benefit (for example, failing to remit employee contributions to the plan trustee in a timely manner or receiving benefits or compensation for selecting a particular investment or financial professional)
- allow party-in-interest transactions (for example, permitting loans or other extensions of credit; any sales, exchange or leasing of property; or furnishing of goods or services) between the plan and any person connected to the plan, including plan administrator, trustee, officer, custodian, counsel, employer, employee and/or relatives of any of the above
- make a payment that may be considered duplicative, excessive or unnecessary

Co-fiduciaries may be held responsible for the actions of one another as well. For instance, you're liable if you knowingly participate in or conceal any fiduciary misconduct, or discover another fiduciary's breach of conduct and fail to take steps to correct it.

Penalties for noncompliance

As a fiduciary, you're personally liable if you fail to comply with ERISA standards or conduct prohibited transactions. Penalties might include:

- having to restore/reimburse losses incurred by the plan and put back any money that the plan might otherwise have earned under normal circumstances, possibly even restoring the balances of each participant's account
- surrendering any profits made by you from the plan
- criminal penalties of up to $100,000 for individual fiduciaries ($500,000 for corporations) and up to 10 years in prison
- monetary penalties for failure to properly disclose information to plan participants
- payment of attorneys' fees
- payment of possible excise taxes
- civil actions — in addition to suits filed by individual participants and others, the Department of Labor (DOL) itself imposes a 20% civil penalty for certain fiduciary breaches

The DOL can even remove you and other fiduciaries from the plan and take control of the plan's assets.

Proceed with confidence

Now that you know what's required of you and the potential liabilities for noncompliance, let's take a look at some practical steps that you, as a fiduciary, can take to help protect yourself from liability and demonstrate ERISA prudence.

The following pages focus on four key strategies:*

1. Take advantage of the ERISA section 404(c) safe harbor
2. Create an investment policy statement
3. Monitor investments and plan expenses
4. Review plan operations

* You may wish to discuss these strategies with legal counsel before implementing them.

1. Take advantage of the ERISA section 404(c) safe harbor

Your 404(c) compliance checklist

Under section 404(c) of ERISA, you can limit your liability by enabling plan participants to control their own investment choices in the plan. Of course, certain conditions must be met. A fiduciary must be named to be responsible for all section 404(c) disclosures. Also, participants must be able to:

- choose from a broad range of investment alternatives that provide access to varying levels of risk and return
- change investments with a frequency that's appropriate in light of the market volatility of the investment alternatives in the plan
- receive sufficient information to make sound investment decisions

This checklist can help. When you can place a check next to all of the statements below, you'll know you're on course to meet ERISA 404(c) requirements.

Starting the process

☐ Our retirement plan offers a broad range of investments (at least three different core investments with materially different risk and return characteristics).

☐ Our retirement plan enables participants to change investments as frequently as appropriate in light of the volatility of plan investments, or at least quarterly.

☐ We have appointed a plan fiduciary as the party responsible for ERISA 404(c) disclosure.

Required disclosure to participants

☐ We have provided participants with the name and address of the plan fiduciary who is responsible for providing ERISA 404(c) disclosure.

☐ We have provided notice to participants that the plan intends to comply with ERISA section 404(c) and that, as a result, fiduciaries may be relieved of liability for investment losses. *[This notice could be included in the summary plan description.]*

☐ We have given participants a description of the plan's investments, including objectives and risk and return characteristics. *[Fact sheets or prospectuses may satisfy this requirement.]*

☐ We have provided participants with printed or online copies of prospectuses either immediately before or after their initial investment in the plan.

☐ We have informed participants of the policies and procedures for investing in the plan.

☐ We have provided participants with a description of the transaction fees and expenses, including commissions or sales loads.

☐ For plans offering company stock as an investment, we have informed participants of their voting rights on that stock and who can exercise them.

Additional disclosure

☐ We have established procedures to provide additional information about each of the plan's investments, including the following:

- past and current results
- a description of the annual operating expenses that affect rate of return
- annual and semi-annual reports, updated prospectuses and other information
- the most current list of holdings
- for non-mutual-fund investments: a description of the annual operating costs, including investment management fees, administrative expenses and transaction costs
- for alternative investments held in a participant's account: the value of shares, including past and current results, and net of expenses

A broader safe harbor

The Pension Protection Act broadened the ERISA section 404(c) safe harbor for plan sponsors with regard to default investments and mapping when a participant has not made an investment election:

- Under the Act, DOL regulations provide a safe harbor for the use of certain default investment options. Taking steps to adhere to these standards can give plan sponsors fiduciary protection.
- The Act also offers plan sponsors protection from fiduciary responsibility during blackout periods or when plan investments are being changed or replaced.

Ask your financial professional for more information.

2. Create an investment policy statement

Although having a written investment policy statement isn't required by ERISA, the DOL has stated that the adoption and maintenance of an investment policy statement is "consistent with the fiduciary obligations set forth in ERISA." In other words, it's a good idea. Many of the ERISA duties outlined on pages 3 and 4 can be addressed in this statement, such as:

- prudent selection and proper diversification of plan investments
- obligation to steer clear of "fad" investments that may be suggested from time to time
- discipline required to maintain the plan's long-term investment objectives and the strategies in place to achieve those objectives

A good investment policy statement should include descriptions of the plan's:

- overall investment strategy
- prudent array of investments
- strategy for monitoring the investments (including, for example, benchmarks with which the investments will be compared and the periods over which results will be evaluated)
- intention to comply with section 404(c) of ERISA, if applicable

Consistent with DOL guidance, you should also select investments for use as the default should any participant fail to make an investment election.

Once you draft an investment policy statement, be sure to have your legal counsel approve it. It's important that the document be reviewed and updated periodically to reflect any changes in the plan's investment strategy. It's also very important to follow your investment policy statement once you adopt it.

Getting started

To obtain the information needed to write an investment policy statement, follow these guidelines and complete the questionnaire below:

1. Participant demographics

The investments selected for a plan should take into account the demographics of the workforce — factors such as the length of time until employees will retire and their overall investment knowledge.

With an older workforce, consider a wider selection of income-oriented investments. With a younger workforce, a greater variety of more growth-oriented investments might be included.

If the workforce has a high level of investment sophistication, offering more complex investments, such as a self-directed brokerage account, might be appropriate. For a less sophisticated workforce, you might want to limit the number of investments.

If you anticipate high employee turnover, consider limiting investments with a surrender charge or back-end fees.

To begin with, find out:

a. What's the predominant age range of the workforce?

☐ 20s and 30s
☐ 40s and 50s
☐ 60s and older
☐ A combination of all of the above

b. What's the average education level of most of the workforce?

☐ High school graduates
☐ College graduates
☐ Attended some graduate school
☐ A combination of all of the above

c. What's the expected employee turnover rate in the coming year?

☐ Low
☐ Moderate
☐ High

2. Selection of plan investments

Your investment policy statement should identify the types of investments the plan may or may not offer.

a. What types of investments may the plan hold?

☐ Mutual funds
☐ Employer securities
☐ Self-directed brokerage accounts
☐ Other ______________________________

b. Are there any investments the plan may *not* hold? If so, please list them:

____
____
____
____
____
____

c. Are there any other restrictions or limitations on plan investments (for example, percentage limitations on particular investments or limitations on the number of investments)? If so, please list them:

Investment	Restriction

3. Monitoring plan investments

Plan investments should be evaluated periodically. This process will be easier if there's a formalized, documented monitoring process in place. In addition to looking at investment results, you should include a review of other relevant factors, such as prevailing conditions and trends in the economy, the securities markets and the mutual fund industry; the nature and quality of investment services provided to the retirement plan; the fees associated with certain investments; and the experience and qualifications of personnel providing investment management services.

a. Who will be responsible for monitoring the plan's investments each year?

☐ The administrative committee for the plan
☐ An officer or employee of the plan sponsor
☐ Other ______________________________

b. How frequently will investments be reviewed?

☐ Annually
☐ Semi-annually
☐ Quarterly

c. What standards will be used to monitor the plan's investment results?

☐ Comparison with applicable peer group investments over several time frames (for example, one year, five years, 10 years and the lifetime of the investment)
☐ Comparison with a relevant index over several time frames (for example, one year, five years, 10 years and the lifetime of the investment)

d. What standards will be used to monitor the plan's investment expenses?

☐ Comparison with applicable peer group investments
☐ Surveys or other data provided in retirement plan or investment publications
☐ Analysis of increases/decreases in expenses over a relevant time frame (for example, the life of the plan or a recent one-, five- or 10-year period)
☐ Other ______________________________

2. Create an investment policy statement (continued)

Ready to write? Here's a template you can follow.

Use the template below as a guide to help you write your retirement plan investment policy statement. You may want to consider reducing your fiduciary liability for investment results by passing on to participants the right to direct their investments. This is a part of section 404(c) of ERISA (see page 7). A sample clause allowing you to delegate this responsibility is included in this template for your convenience.

Purpose

This investment policy statement describes the long-term investment objectives of [INSERT NAME OF COMPANY RETIREMENT PLAN], establishes investment principles for the plan, creates guidelines for evaluating investment decisions and confirms the plan's intent to satisfy the requirements under ERISA section 404(c) and the Department of Labor (DOL) regulations thereunder. ERISA section 404(c) limits the liability of the plan's fiduciaries for investment losses resulting from the exercise of participant control over their plan investments.

This investment policy statement is intended to assist the fiduciaries in ensuring that the investments under the plan:

- are selected and monitored in accordance with ERISA requirements
- are consistent with the plan's exclusive purpose of providing retirement benefits to plan participants and their beneficiaries
- satisfy the requirements of ERISA section 404(c)

Statement of investment objectives

The plan will offer a broad range of investments (no fewer than three diversified options) that:

- have materially different risk and return characteristics
- enable participants to select investments with risk and return characteristics that are appropriate for their risk tolerance, savings time horizon and financial goals
- minimize overall investment risk through diversification
- minimize investment fees and expenses

Investments will be chosen on the basis of compatibility with plan objectives and participant demographics.

The plan intends to provide an appropriate range of investments that represent various risk and return alternatives. Together, these investments should permit plan participants to create portfolios consistent with their individual circumstances and goals.

The plan will offer mutual funds with the following investment objectives:

- *Growth* — These funds invest primarily in the stocks of companies that have the potential for above-average gains. These companies oftentimes pay small or no dividends, and their stock prices tend to have the most ups and downs from day to day.
- *Growth-and-income* — These typically invest in the stocks of companies that pay dividends and have good prospects for earnings growth. They also invest in bonds, which provide income. They're generally less risky than growth investments because the income from dividends and bond interest helps cushion the ups and downs.
- *Equity-income* — These invest primarily in dividend-paying stocks and bonds. Because equity-income funds don't place a primary emphasis on growth, they tend to produce lower returns, compared to growth funds, during strong upswings in the stock market. The emphasis on income, however, can soften the impact of a stock market downturn.
- *Balanced* — These invest primarily in a combination of stocks, bonds and cash-equivalent investments. Over the long term, they seek growth of both capital and income. Balanced funds tend to produce more income than do growth funds, which can help returns during a stock market downturn. At the same time, they tend to have lower returns than growth funds during a market upturn.
- *Income* — These invest in bonds and are designed to provide regular income from interest paid by the bonds they hold. Since bond investments seek to produce income, they typically help investors ride out stock market downturns. But they also tend to have lower returns than do growth funds during a stock market upturn.
- *Cash-equivalent* — These invest in safe short-term securities such as U.S. Treasury bills and CDs. Although cash-equivalent funds aren't federally insured or guaranteed, they are designed to preserve the initial investment.
- *Other — [List the investments here or on addendum.]*

Guidelines for evaluating investment decisions

To ensure continued compliance with the objectives of this investment policy statement, periodic reviews of the plan's investments will be conducted on at least an annual basis. The results of the review and the evaluative material used in the review process will become part of the records maintained by the plan fiduciaries conducting the review. This documentation will include reasons for continuing to offer particular investments or for removing or replacing them.

In reviewing existing investments, consider the following:

- Do the investments' objectives remain consistent with the plan's overall investment objectives and goals?
- Does each investment remain adequately diversified within the plan's overall investment lineup?

  In assessing the results of each investment, take into account the following factors:

  — the nature and quality of the investment management services

  — the experience and qualifications of the personnel providing the investment management services

  — the general conditions and trends prevailing in the economy, securities markets and mutual fund industry

  — a comparison of the investment results with industry benchmarks over a series of different time horizons to avoid over-emphasizing short-term results

  — the fee structure and expense ratio of selected investments as compared to other alternatives available in the marketplace

ERISA 404(c)

The plan's fiduciaries intend the plan to comply with ERISA section 404(c). To enable participants and beneficiaries to exercise control over their individual accounts, participants and beneficiaries can:

- choose from a broad range of investments and diversify their portfolios within and among those investments
- submit investment instructions with a frequency that's appropriate in light of the market volatility of the investments
- obtain sufficient information to make informed investment decisions

Participants will choose investments for their accounts from among those available in the plan. They may execute exchanges among plan investments as often as permitted by the rules adopted for the plan, but must be given the opportunity to do so no less frequently than quarterly. The plan includes an appropriate default investment option that meets DOL regulations.

Participant education and communication

The plan will communicate to employees that they have control over their individual accounts and are responsible for the investment decisions they make. The plan will provide educational material designed to help participants make informed decisions.

Proxy voting

Responsibility for proxy voting rests with [THE PLAN SPONSOR, THE INVESTMENT COMMITTEE OR ANOTHER DESIGNATED PLAN FIDUCIARY]. The [PLAN SPONSOR, INVESTMENT COMMITTEE OR OTHER DESIGNATED PLAN FIDUCIARY] will review the proxy statements and vote in a manner that's consistent with the interests of the plan participants and beneficiaries. If the plan holds employer stock, proxies for such stock shall be delivered to the participant or beneficiary in whose account the stock is allocated.

3. Monitor investments and plan expenses

At least once every year, your retirement plan committee should meet to review the plan's investment results. Investments should be considered both individually *and* as a complete plan portfolio.

Key questions to ask include:

- Are the objectives of each investment still consistent with the plan's overall investment objectives and goals?
- Does each investment remain adequately diversified?
- Does each investment continue to contribute to the overall diversification of the plan's portfolio?

Investment review checklist

The checklist that follows can be used to complete your review of the plan's investments. It can also serve as an agenda for the retirement plan committee's annual meeting. Documentation of the review process is essential — this agenda and the minutes from the meeting will help you document procedural prudence. You should consult with your legal advisers to make sure the documentation is adequate.

☐ **Are any changes to the plan's investment policy statement being considered at this time?**

- If yes, then list the recommended changes. If any of the changes are accepted, be sure to adjust the remainder of this review to take them into account.

☐ **Confirm the plan's compliance with ERISA section 404(c):**

- Refer to the ERISA 404(c) compliance checklist on page 7. The completed checklist should be attached to the minutes of this meeting.
- Note any changes in compliance procedures that require committee approval.

☐ **Review the plan's investments for the prior year, consistent with the plan's investment policy statement:**

- Consider the nature and quality of investment management services provided to the plan. This evaluation should start with an assessment of the provider and include its investment philosophy.
- Compare investment results with those of a peer group.
- Compare investment results with a relevant index.

  Results should be compared with the results of an appropriate broad-based index, such as the Standard & Poor's 500 Composite Index, MSCI EAFE® Index or Barclays Capital U.S. Aggregate Index. These comparisons should be made over meaningful time frames such as five- and 10-year periods, as well as over the lifetime of the investment. Many investment professionals also examine results over full market cycles.

☐ **Review the plan's investment expenses:**

- Compare the expenses of your plan investments with those of an applicable peer group.
- Compare the expenses of your plan investments with survey results or other relevant data provided in retirement plan or investment publications.
- Analyze increases/decreases in expenses over relevant time frames, such as the life of the plan and recent one-, five- and 10-year periods.

☐ **Check the experience and qualifications of the plan's investment manager(s):**

- Have there been any changes in the past year in the personnel providing investment management services to the plan?
- What's the average number of years of investment experience for the managers of each investment?

☐ **Should any changes be made to the plan's menu of investments?**

One or two years of below-average investment results generally don't provide sufficient justification to remove or replace a particular investment. For that reason, investment returns should be shown over a number of years. The best way to measure the abilities of an investment manager is to evaluate its investment results over the long term, while confirming that it's maintaining the philosophy that produced those results. Nevertheless, investments that consistently rank in the bottom quartile of their peers over an extended period of time may need to be removed or replaced.

In some instances, factors other than results could suggest a change in a plan's investments. For example, as the company's demographics change, it may be a good idea to look at all the plan investments to determine if any should be removed or replaced.

If the committee decides to remove or replace an investment, it should document its rationale and retain the supporting material that led to this decision.

☐ **If the plan holds any investments that are subject to special restrictions and/or limitations, consider whether they should continue to apply and whether they've been adhered to over the past year.**

The committee review should include the continuing appropriateness of and compliance with any restrictions on plan investments. For example, a self-directed brokerage window may be available for employee contributions but not for employer contributions. Company stock or other investments may be restricted to a specified percentage of a participant's account balance. Should these restrictions be changed, eliminated or retained? To assess compliance with these restrictions, the committee should review a report showing any exceptions that have arisen over the past year. The committee should then consider whether corrective action is needed regarding those exceptions.

Be sure to monitor plan expenses

ERISA states that plan sponsors must "ensure that retirement plan fees and expenses paid by participants are reasonable." Why? High plan costs can significantly erode participants' account balances over time, keeping employees from reaching their financial goals.

In addition, increased scrutiny and regulatory action have made it imperative that plan sponsors understand their plan fees and expenses.

As a fiduciary, you must keep your participants' interests foremost in mind. Given the potential impact of plan fees and expenses, a prudent person — by ERISA definition — would monitor plan costs at least annually to ensure that they're reasonable. Compare last year's costs to this year's, taking into account the effects of inflation. Your analysis should be documented and kept in your ERISA due diligence file.

4. Review plan operations

ERISA requires plan fiduciaries to operate the plan in accordance with its written terms. Once a year, then, it makes sense for the committee to review the plan's routine operations, such as withdrawal processing and enrollment procedures, for any problems. For example:

- Are procedures running smoothly?
- If any processes are outsourced, is the service provider meeting its contractual obligations?
- Are there any service issues that need to be addressed by the committee?

The committee should review any claims disputes that occurred during the year. These disputes, along with any actions proposed to address the problems, should be documented in the minutes of the meeting.

At this point, the committee also may wish to consider changes to the plan's operations. Should enhancements be adopted or existing procedures phased out or eliminated?

You can use the checklist that follows as an agenda for the committee's annual review. This checklist is not exhaustive. There may be other areas of your plan's operations that should be included in your review. Consult with your legal advisers to make sure that you're covering all of the bases. Open communication with the plan's service providers can also help you identify issues requiring input from the committee.

Plan operations review checklist

☐ **Eligibility and enrollments**

- Were there any problems with eligibility determinations?
- Were necessary documents provided in a timely fashion?

☐ **Recordkeeping**

- Were there any problems with accuracy?
- Were there any problems with the timeliness or availability of access to participant and overall plan information?

☐ **Contributions**

- Were participant contributions, if applicable, remitted in a timely fashion?
- Were there any problems with the company contributions?

☐ **Withdrawals** (for example, hardship withdrawals)

- Were there any problems processing withdrawals?

☐ **Vesting of company contributions**

- Were there any problems computing vesting credits?

☐ **Participant loans** (if applicable)

- Were there any problems processing loans?
- Were loan repayments remitted in a timely fashion?
- Were any loans in default properly declared and reported?

☐ **Termination, death and disability distributions**

- Were there any problems processing these distributions?
- Were applicable disclosures provided in a timely fashion?
- Were minimum distribution requirements met, if applicable?

☐ **Annual reporting**

- Were there any problems with the retirement plan's Form 5500 reporting?
- Were there any problems with the plan's annual audit, if applicable?

☐ **Annual disclosures/employee communications**

- Were applicable annual disclosures provided in a timely fashion?
- Are employee communications meeting expectations?

Ready to navigate ERISA?

Recent events and highly publicized court cases have thrust fiduciary liability into the media spotlight. Plan participants are now more aware of their rights and are more carefully scrutinizing their retirement plan investments. As a result, it's more important than ever that you understand your responsibilities and protect yourself as you move ahead.

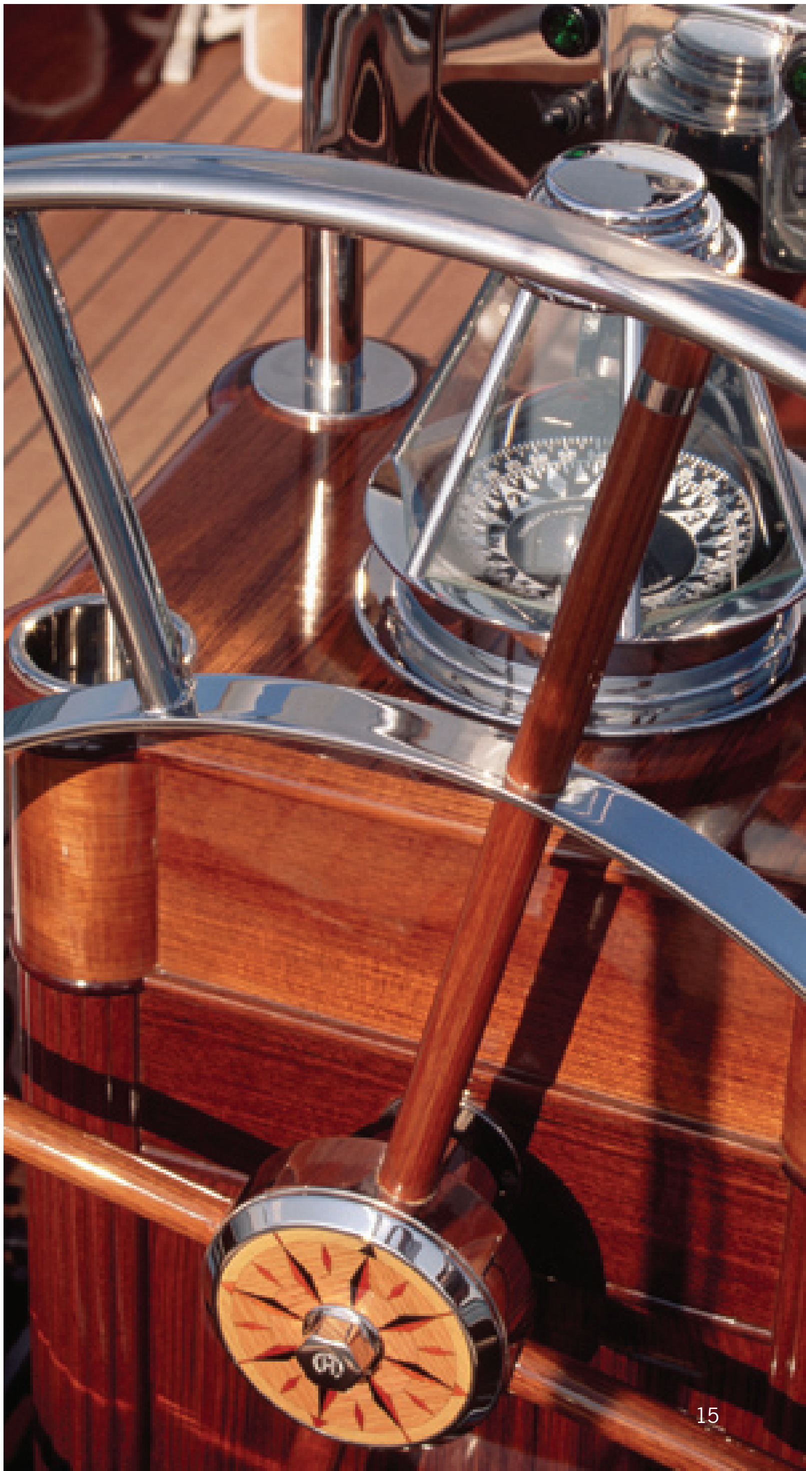
As covered throughout this brochure, ERISA requires you to:

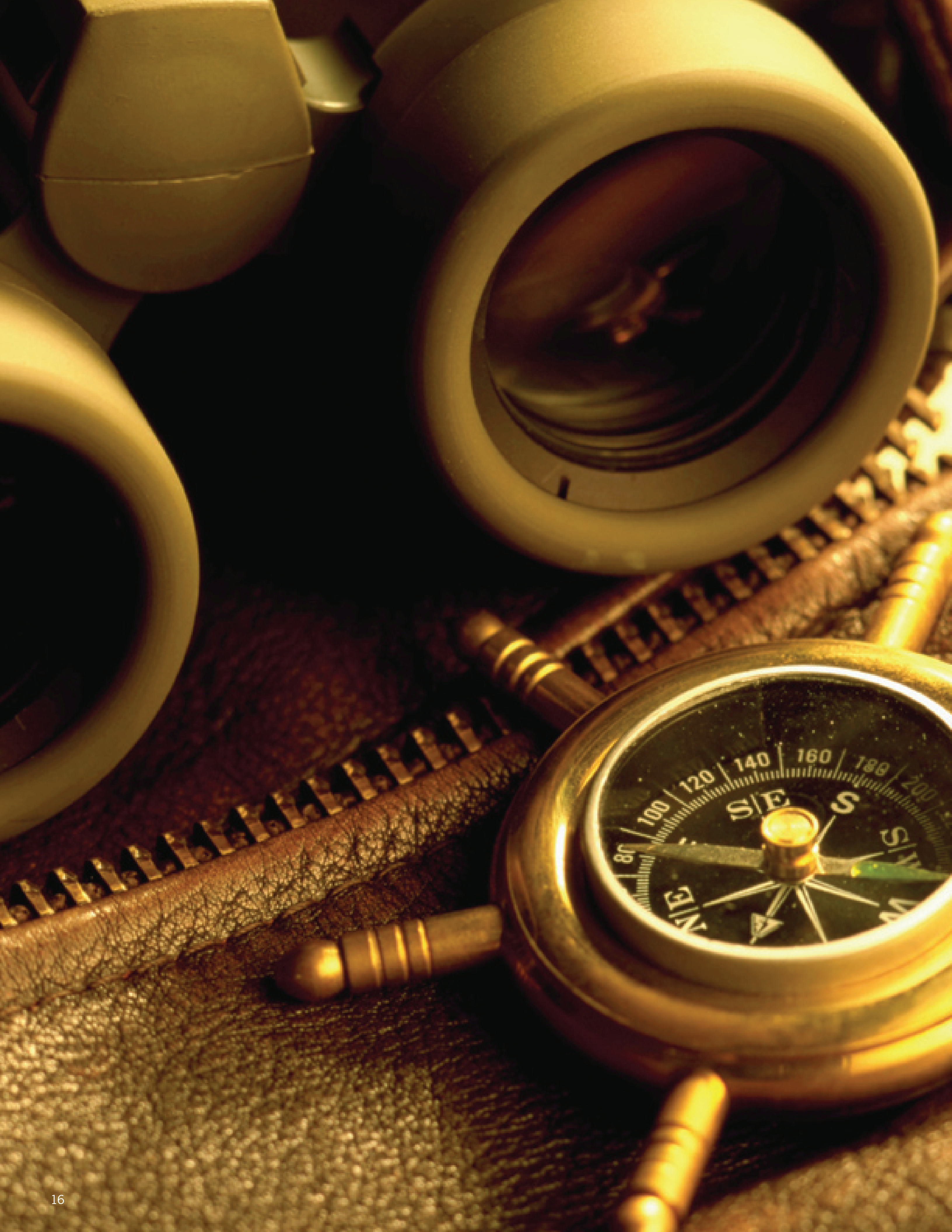
- Demonstrate loyalty to the plan
- Proceed with prudence
- Diversify investment options
- Act in accordance with plan terms

To reduce your liability and demonstrate ERISA prudence, you should:

1. Take advantage of the ERISA section 404(c) safe harbor
2. Create an investment policy statement
3. Monitor investments and plan expenses
4. Review plan operations

For more information, call your plan's financial professional.





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What makes American Funds different

A long-term, value-oriented approach

American Funds seeks to buy the stocks and bonds of well-managed companies at reasonable prices relative to their prospects and hold them for the long term. Instead of asking, "Where will this *security* be in three to six *months*?" American Funds prefers to ask, "Where will this *company* or *issuer* be in five to 10 *years*?"

- The average turnover rate for the firm's equity funds is 35%, compared to the industry average of 87% for all equity funds.*

** Source: Lipper, based on portfolio turnover rates for equity funds as of the most recent fiscal year-ends available through December 31, 2008.*

An extensive global research effort

American Funds investment professionals travel the world to find the best investment opportunities and gain a comprehensive understanding of companies and markets.

- The firm commits substantial resources to global investment research. In 2008, American Funds investment professionals visited thousands of companies in more than 60 countries.
- The first overseas office opened in 1962, well before most financial managers even began investing internationally.

The multiple portfolio counselor system

American Funds unique approach to portfolio management, developed 50 years ago, blends teamwork with individual accountability and has provided the firm with a sustainable method of achieving fund objectives. Here's how it works:

- Each fund's assets are divided into smaller portions and managed by portfolio counselors who make independent investment decisions that are monitored to ensure consistency with fund objectives and overall guidelines.
- A group of investment analysts who specialize in different industries is given a portion to manage — often as much as 25% of assets — bringing a diversity of experience to bear directly on fund results.

Experienced investment professionals

American Funds portfolio counselors have an average of 25 years of investment experience, providing a depth of knowledge and broad perspective that few organizations have.

- More than half of the equity portfolio counselors experienced the October 1987 crash, and nearly a third of them experienced the 1973–74 bear market. More than three-quarters of the fixed-income portfolio counselors experienced the difficult 1994 bond market.
- Long management tenure has helped the firm maintain a consistent investment style over the years.
- American Funds views research as a career, not just a steppingstone to portfolio management. Analysts have been building relationships with the same companies for years.

A commitment to low management fees

American Funds strives to keep fund investment management fees low. The firm understands that this is important to you, since it's your responsibility to ensure that plan costs — including management fees, recordkeeping and other administrative costs — remain reasonable.

It's also important because low investment management fees can have a direct impact on your plan's overall investment results.

Investors should carefully consider the objectives, risks, charges and expenses of the American Funds and, if applicable, any other investments in the plan. This and other important information is contained in the funds' prospectuses, which can be obtained from the plan's financial professional and should be read carefully before investing.

American Funds®

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