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Understanding the Impact of Russian Sanctions on Retirement Plans

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On February 24, 2022, Russia began a large-scale invasion of Ukraine. In response, the United States and other countries have imposed sanctions on a broad range of financial transactions that affect Russia. Pension and 401(k) plans may have exposure to Russian markets either directly through equity securities or bonds or through emerging market or other collective funds.

As part of their oversight responsibilities over plan investments, retirement plan fiduciaries should discuss the impact of sanctions on the plan and its investment portfolio with their service providers, such as outsourced chief investment officers (OCIOs) or other investment managers or advisers. Institutional service providers have likely already given careful consideration to this issue and taken appropriate steps to ensure compliance with sanctions, but plan fiduciaries should understand these measures as part of a prudent monitoring process.

Plan fiduciaries may consider asking the following questions:

- Is the plan currently invested in assets subject to sanctions and, if so, what is the form of investment (e.g., registered mutual funds, collective investment trusts, private funds, separate accounts)?
- What steps are being taken to ensure that the plan and its underlying investments are in compliance with Russian sanctions?
- To what extent does the plan have illiquid investments that may be adversely impacted by Russian sanctions?

Fiduciaries should also ensure that any plan assets invested outside of the United States are in compliance with the Department of Labor's "indicia of ownership" rules, which generally impose rules for holding assets that are not subject to the jurisdiction of the United States.

Note that terminating pension plans may have special considerations due to the impact of sanctions. For example, the process of transferring restricted assets through a special license granted by the Department of Treasury's OFAC agency may cause delays. FAQs about the OFAC licensing process are available here.