


INSIGHTS

What is a Third-Party Administrator (TPA)?



Third-party administrators (TPAs) have played a key role in the world of retirement plans for more than half-a-century by helping keep workplace retirement plans compliant with the Employee Retirement Income Security Act of 1974 (ERISA) and other regulations issued by the Internal Revenue Service, the Department of Labor and the Department of Treasury.


Among other responsibilities, TPAs provide essential plan design services and perform critical administrative work for retirement plans. When a plan sponsor outsources responsibilities to a TPA, it reduces the administrative burden on its business and frees up time to focus on day-to-day operations.

The Role of a Plan Sponsor

It is not easy to talk about a TPA's role without first identifying the other essential parties connected to a retirement plan. First, there's the plan sponsor — usually a company or employer — that establishes the retirement plan, such as a 401(k) or cash balance plan, for the benefit of the organization's employees.

Plan sponsors are responsible for a number of annual administration duties, including (but not limited to):

- Upload payroll contributions
- Provide accurate year-end census data
- Execute all documents, distributions, Form 5500s, etc.
- Deliver required eligible employee/participant notices



A plan sponsor is a named fiduciary of the retirement plan under ERISA, either by title specific designation or by maintaining certain responsibilities. Every retirement plan must have at least one fiduciary named in the plan document (i.e., either a person or an entity). Typically, the plan sponsor or an employee/group of employees is the named fiduciary and is/are designated as the plan administrator.

If the plan sponsor engages a TPA for all or some of the previously mentioned duties, the TPA is considered an ERISA fiduciary in accepting responsibility for the completeness and accuracy of those completed duties.

Recordkeeper Responsibilities

A recordkeeper processes investment transactions for participants in the retirement plan. The recordkeeper also manages and tracks participant contributions by source type, processes employee enrollments and typically provides participant call centers and/or online access for participants to manage their retirement plan accounts.

In addition, recordkeepers:

- Provide secure online access for participants to access their account information
- Generate quarterly participant statements and deliver them to participants
- Fulfill most of the fee disclosure requirements to plan sponsors and participants

The Role of a Financial Advisor

A plan sponsor often retains the services of a financial advisor, who is responsible for all questions concerning plan investments and may provide guidance and investment/retirement planning education to the plan sponsor and participants. The financial advisor also works with the plan trustees or retirement committee to ensure the retirement plan's investment options are appropriate for the employee population. In some instances, the financial advisor may provide services as an investment fiduciary to the plan. This further reduces some of the plan sponsor's fiduciary liability in operating the plan.

Financial advisors generally:

- Develop the framework of an Investment Policy Statement for the plan, which provides the baseline for monitoring the performance of (and taking action to address/adjust) the plan's investment
- Provide investment/retirement planning education to plan participants
- Assist with or handle plan enrollments

TPAs and the Retirement Plan

A retirement plan must have a designated plan administrator who is responsible for the day-to-day management of the plan. Given the lengthy list of responsibilities and the liability associated with those responsibilities, a plan sponsor often outsources the administrative duties to a company that specializes in delivery of such services, like Definiti. The plan sponsor retains its status as a plan administrator even if many of the day-to-day retirement plan administrative duties are delegated to a TPA.

A TPA is well-versed in the plan provisions and regularly consults with the plan sponsor to ensure the retirement plan continues to fit the organization's goals. The TPA also maintains the plan's compliance with any updates to the legislative and/or regulatory environment for retirement plans. Additionally, the TPA performs required annual nondiscrimination tests on the plan to ensure it does not disproportionately benefit highly compensated employees.

The preparation of IRS Form 5500 is also a key benefit of engaging a TPA. In doing so, the plan sponsor only needs to sign the document. The TPA will also prepare any required or elective plan amendments to meet the changing needs of the sponsoring organization.

Value of the TPA

Retirement plans are technically complex. There is no standard cadence to when new guidance from the IRS, Department of Labor or Department of Treasury is presented; however, a plan sponsor is responsible for knowing the impact on their plan and must take any necessary actions. The TPA can take the lead in translating and communicating such guidance in a way the plan sponsor can understand.

If the company does not yet have a retirement plan in place for its employees, the TPA will work with the plan sponsor on an appropriate design intended on achieving the employer's goals.

Once a plan sponsor hires a TPA, a review of the plan's operations is conducted by the firm where they verify whether the current design is still optimal for the employer based on their goals. A TPA will discuss the most appropriate alternatives if updates are necessary. The TPA will also assist with any changes in the recordkeeping platform and may provide options that allow a better overall experience while also making the plan more efficient and cost-effective.

Reasons an established retirement plan may need to be reworked include:

- **Changes in the employee population.** If the employee population skews younger or older over time, this can affect compliance testing.
- **Changes in company ownership.** This can have an impact on the plan sponsor's goals, nondiscrimination testing and more.
- **Merger and acquisition activity.** If the company recently purchased a company or spun off a division, the TPA will consider how it affects the retirement plan.
- **Nondiscrimination testing regularly fails.** If a retirement plan repeatedly fails testing, this is another attention area a TPA can address by, often, redesigning the plan to address those issues.
- **New retirement plan legislation.** New regulations are issued frequently and may have a significant impact on the plan. TPAs ensure a retirement plan is updated properly and operates correctly when these new laws are passed/regulations issued.

The Definiti Difference

Definiti knows the decision to partner with a TPA is a significant one. Plan sponsors considering hiring a TPA to assist with their retirement plan should consider an organization that can meet their needs today — and be a trusted partner into the future.

Definiti provides the day-to-day partnership to help plan sponsors meet the administrative needs of their retirement plans. Definiti offers:

- **Full suite of retirement plan services.** Definiti has expertise in all areas of retirement plans, including defined contribution plan design (401(k)s, et.al.), plan administration and compliance; defined benefit plan design, actuarial services, administration and compliance, including cash balance; 3(16) fiduciary services; actuarial consulting (small and large plan); pension outsourcing; and recordkeeping.
- **Skilled retirement experts across the country.** Definiti's in-house actuarial consultants, ERISA attorneys, document specialists and retirement plan consultants help plan sponsors and financial advisors redefine what's possible with workplace retirement plans.
- **Commitment to data security.** Definiti provides world-class diligence in securing sensitive plan data, ensuring information is secure and protected behind robust cybersecurity systems. Definiti invests in technology, processes and dedicated staff members that keep private and sensitive information secure. Definiti's Information Security Plan, on-going upgrades and regular security reviews ensure Definiti prevents breaches while also being poised for a swift and capable response should a cybersecurity event occur.
- **Strong partnerships with financial advisors.** Advisors nationwide count on Definiti to deliver more to their clients. These trusted partners value Definiti's expertise on the most complex plan regulations, its connection to top recordkeeping platforms and its focus on protecting plan data. Advisors are confident their clients' retirement plan needs are well cared for, and Definiti works every day to maintain that trust.

- **Timely, consistent communications.** Definiti keeps in touch regularly with its plan sponsors and advisors on the daily administrative work while also delivering educational newsletters, topical webinars, the annual Definiti Retirement Academy, and other resources that keep clients connected to legislative and regulatory updates that impact retirement plan offerings and operations.
- **Commitment to its people.** Definiti works every day to be an employer of choice by offering competitive benefits, a rewarding work environment and a policy of equal employment, diversity and inclusion for all individuals. Location never limits Definiti from hiring the best and brightest in the retirement services industry, so many Definiti employees work remotely. Definiti pairs its in-house training programs for team members with leading industry certification programs and continuing education.

Definiti is Here to Help

Retirement plan administration and compliance can be complex and complicated. Definiti delivers definite answers about retirement plan administration to plan sponsors and financial advisors.

Definiti is ready to continue the conversation about TPA services and how it can benefit virtually any retirement plan. Call 1-(888)-912-3653, email sales@definiti-llc.com or visit definiti.com to define what retirement can be.

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