

INSIGHTS

What's the Benefit of a 3(16) Administrator?

Two Plan Sponsors Weigh In

Offering your staff a retirement plan, such as a 401(k) or cash balance plan, is a smart thing to do. Studies show that, collectively, people need to save more for retirement. Most employees expect to see a retirement plan, and they may view a company without one as less desirable than the employer next door who does.

What employees don't know (or care about) is the administrative burden that comes with an employer-sponsored retirement plan. The volume of those duties only seems to grow as businesses try to get by with leaner teams, and more complicated regulations emerge every year or two from the government.

Another factor is that many retirement plan sponsors, especially those working at smaller companies, already have a full-time day job. They could be the owner running

the business or a manager overseeing a busy department. They know spending time on the retirement plan benefit is critical, but other work often calls them away.

The myriad administrative tasks that come with retirement plans are a big reason companies hire third-party administrators (TPAs). And for those retirement plan sponsors who want to offload another chunk of the administrative burden — the fiduciary-related duties — they turn to a 3(16) fiduciary services provider.

What is a fiduciary for a retirement plan?

It's any person (individual or corporation) who exercises discretionary authority or control over the management or disposition of plan assets.

([Here's what the IRS says about plan fiduciaries.](#))

Interest in 3(16) Fiduciary Service Providers is Growing

At Definiti, we're seeing greater interest in 3(16) plan administrator (a.k.a. plan fiduciary) services from the retirement plan sponsors we work with. Companies of varying sizes and from surprisingly different industries now rely on our 3(16) fiduciary administration services delivered by [The Fiduciary Studio](#), a subsidiary company and separate legal entity.

As more financial advisors take on fiduciary roles themselves, they're seeing the plan sponsor's fiduciary responsibilities in a new light. Our advisor contacts are introducing 3(16) plan administration outsourcing to more clients (even those with start-up retirement plans) and asking them to consider the service.

Manufacturer's Decision to Outsource 3(16) Plan Administrator Pays Off

The top benefit of choosing a 3(16) services provider is they take over critical administrative duties and assume nearly all fiduciary liability. [One fiduciary role the retirement plan sponsor retains is choosing the 3(16) fiduciary services provider.] The plan sponsor can stop spending time on loan and distribution approvals, sending required participant notices, signing and filing the annual Form 5500, submitting payroll contributions on time and more.

We introduced one of our clients, a global plastics manufacturer, to The Fiduciary Studio's 3(16) fiduciary services a year ago. The company was already using Definiti's TPA services, but their financial advisor [the plan's 3(38) fiduciary*] suggested they also evaluate 3(16) administration services. (This advisor is such a firm believer in 3(16) outsourcing and the fiduciary protection it provides that he recommends it to many clients.)

The manufacturing company plan sponsor is responsible for a 401(k) with about 100 U.S.-based participants. With a small, two-person human resources team, the sponsor was consumed by other responsibilities and didn't want any plan-related task to fall through the cracks.

Once the plan sponsor gave the green light to partner with The Fiduciary Studio, the process of getting the service in place took just a few weeks. Today, the small human resources staff is enjoying a lightened administrative load with virtually all fiduciary responsibilities outsourced, resulting in more time they can spend on other employee matters.

Construction Industry Company With 16 Participants Chooses The Fiduciary Studio

Another one of Definiti's TPA service clients just recently added The Fiduciary Studio's services. The company president said her human resources lead had just given notice and, instead of hiring another HR person, she wanted to outsource the fiduciary responsibilities. Calling her strategy "working smarter, not harder," the president said the cost of The Fiduciary Studio was a fraction of the cost of an HR person's salary and benefits.

A Decade of Fiduciary Administration Experience

Definiti's partnership with The Fiduciary Studio began in February 2019. Unlike other 3(16) plan administrator service providers newer to selling this service, The Fiduciary Studio has a decade of experience in this area.

The Fiduciary Studio's services keep retirement plans compliant and minimizes the risks associated with critical activities while allowing plan sponsors more time for other employee benefits — or in the case of a company owner, managing the business.

What's the Difference Between TPA Services and 3(16) Administrator?

With the TPA and 3(16) fiduciary services providers both focused on administering day-to-day responsibilities for the retirement plan, you may be wondering if the roles overlap at all. They don't at Definiti. Our TPA services and The Fiduciary Studio's duties are delivered side by side. The Fiduciary Studio is responsible for administrative oversight, is a named fiduciary and is in close contact with the plan sponsor's TPA contact.

Here's a simplified example of how our two organizations work together:

Definiti completes the Form 5500 and sends it to the plan sponsor to review, sign and submit to the Department of Labor on time. When The Fiduciary Studio is part of the retirement services team, The Fiduciary Studio checks the Form 5500 prepared by us, signs as the fiduciary and submits it on behalf of the client.

More broadly, you can think of the partnership between the TPA and the 3(16) fiduciary service provider as a hand-in-glove relationship, where both parties work together to keep the retirement plan compliant and reduce the plan sponsor's workload.

Who Specifically Benefits From The Fiduciary Studio's Services?

If you're considering the value of 3(16) administration services, here's how The Fiduciary Studio helps our clients avoid common situations you may also have experienced:

- Too small of a benefits staff (or too many junior team members) to manage plan-related responsibilities
- Confusion about which plan participant notices need to go out and by when
- Failure to enroll participants on time and worries about having to do another correction
- Missed the Form 5500 filing deadline because they forgot to sign and submit the document
- Failed compliance testing in the past and need assurance it won't happen again

We're Here to Help

Keeping a retirement plan compliant is often complicated and demanding. If you juggle other responsibilities within your company, the hours you need to devote to plan administration could be limited. The fiduciary duties of being a retirement plan sponsor are weighty, too.

Here's the good news: You can outsource a significant amount of the retirement plan administration responsibilities to a TPA and 3(16) fiduciary services administrator.

Do you need someone to help carry the load of your plan sponsor responsibilities? Or are you a financial advisor who wants to learn more about how Definiti and The Fiduciary Studio work together to help your clients? Let's start the conversation — call 1-(888)-912-3653 or email sales@definiti-llc.com.

*Under the Employee Retirement Income Security Act of 1974 (ERISA), a plan's named fiduciary (e.g., the plan sponsor) is authorized to appoint an investment manager responsible for all investment matters, including choosing and managing, monitoring and benchmarking the plan's investment options.

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