The Benefits of Outsourcing 3(16) Plan Administrator Fiduciary Duties to a Professional

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The Benefits of Outsourcing 3(16) Plan Administrator Fiduciary Duties to a Professional

The management of retirement plans has become increasingly complex, demanding that plan sponsors navigate evolving regulatory requirements, administrative responsibilities, and fiduciary obligations—all while operating within resource constraints.

As key stakeholders in retirement plan oversight, financial advisors often serve as the first line of defense, guiding clients through administrative challenges, mitigating compliance risks, and ensuring adherence to fiduciary best practices.

By proactively addressing these complexities with the help of a 3(16) fiduciary, advisors play a critical role in safeguarding plan integrity and optimizing outcomes for both sponsors and participants.

The Role of the 3(16) Plan Administrator

One of the most demanding roles under ERISA is that of the 3(16) Plan Administrator, responsible for overseeing plan operations, regulatory compliance, and participant communications. Outsourcing to a 3(16) fiduciary brings expertise in handling the complex administrative tasks associated with managing a retirement plan, ensuring the plan runs smoothly.

Advisors Increasingly Burdened with Administrative Responsibilities

Advisors are increasingly burdened with administrative responsibilities. Outsourcing to a 3(16) fiduciary brings expertise in best practices, ensuring accurate and timely execution of administrative duties. This reduces errors, improves operational efficiency, and ultimately leads to a smoother participant experience.

Nearly 70% of advisors surveyed cite administrative burden and fiduciary risk as chief concerns among clients in managing their retirement plans. By transferring these responsibilities to experts, advisors can help clients reduce risk, streamline operations, and enhance the overall effectiveness of their retirement plans.

Source: Pentegra 2025 Study on Advisor Attitudes Toward Fiduciary Outsourcing.

Outsourcing 3(16) Fiduciary Responsibilities Presents a Strategic Advantage for Advisors and Clients

Outsourcing 3(16) fiduciary responsibilities to a professional provider can be a strategic decision that delivers significant benefits to both advisors and their clients. By shifting these burdens to a dedicated expert, advisors can help clients mitigate risks associated with non-compliance, penalties, and potential litigation—freeing themselves to focus on core competencies and business growth.

Outsourcing can help reduce the risk of penalties and litigation by ensuring proper plan administration, timely filings, and accurate participant communication. In addition, it provides access to specialized expertise that can handle complex issues that might otherwise burden internal teams.

Outsourcing these responsibilities not only helps ensure compliance, but also can provide a high level of compliance confidence that their retirement plans are being managed well by trusted, expert professionals.

Additionally, outsourcing 3(16) fiduciary functions provides access to the latest regulatory knowledge and best practices. This can help a business stay ahead of any changes in the law or industry trends that might affect the plan, ensuring employees have a competitive retirement benefit while minimizing the burden on the business. It's a smart way for businesses, especially smaller or resource-constrained ones, to offer a robust retirement plan without the heavy lifting of managing every aspect internally.

More than 70% of advisors surveyed cite administrative issues as the leading retirement plan issue that takes up most of their time. Advisors are increasingly burdened with administrative responsibilities, and supporting retirement plan sponsors requires evolving expertise. By partnering with a trusted 3(16) fiduciary provider, advisors can offer clients a valuable, high-quality service that enhances the overall effectiveness of a retirement plan, and positions them as trusted partner in their clients' long-term success.

Source: Pentegra 2025 Study on Advisor Attitudes Toward Fiduciary Outsourcing.

Fiduciary Roles in a Retirement Plan

In any retirement plan, fiduciaries have legal responsibilities to act in the best interests of plan participants and beneficiaries. Different fiduciary roles exist to manage specific aspects of the plan. To fully understand the role of a 3(16) fiduciary, it is helpful to understand the broader fiduciary structure.

The plan sponsor is typically the employer who establishes the retirement plan and has ultimate responsibility for its operation and compliance with regulatory requirements. The plan sponsor is considered the Named Fiduciary under the Employee Retirement Income Security Act (ERISA) and is responsible for overseeing the plan's administration. In this role, the plan sponsor can choose to delegate certain responsibilities to other parties.

Fiduciary Roles Under ERISA

The Role of the Named Fiduciary

The Named Fiduciary holds the highest level of fiduciary responsibility for the plan. Think of the Named Fiduciary as the plan's 'CEO.' The ERISA-Named Fiduciary is the principal fiduciary for a plan, and prudently monitors and documents all decisions affecting the plan and its investments. The Named Fiduciary can delegate responsibilities to others in order to provide varying levels of support for the plan. These roles can be both fiduciary and non-fiduciary in nature and can include the plan administrator, the Trustee, an investment advisor, or an investment manager.

3(16) Plan Administrator

ERISA Section 3(16)(A) defines the plan administrator role. The plan administrator is the fiduciary responsible for the overall operation of the plan and managing the day to day administration. Think of the 3(16) Administrative Fiduciary as the plan's 'COO.' Under the most expansive scenario, the 3(16) Administrative Fiduciary accepts all, or nearly all, of the functions of the plan administrator as well as the legal title.

Trustees

The Trustee is the person or entity with authority and discretion to manage and control the assets of the plan. Think of the Trustee as the plan's 'CFO.' This authority can also be assigned to one or more investment managers and can be delegated in a discretionary or directed capacity.

ERISA 3(38) Investment Manager

The 3(38) investment fiduciary, or a plan's Investment Manager assumes responsibility for the plan's investment decisions. The 3(38) investment fiduciary assumes full discretionary authority and control over the selection, monitoring and replacement of plan investment options. The 3(38) must be a registered investment advisor, bank or insurance company.

ERISA 3(21) Investment Advisor

The 3(21) investment fiduciary may recommend plan investments, monitor investments, provide investment guidance and counsel to the plan sponsor in accordance with the plan's Investment Policy Statement, and provide participant education and advice. While a 3(21) investment fiduciary provides counsel and guidance, the 3(21) investment fiduciary does not have discretion and responsibility for investment decisions at the plan level.

Understanding the Role of a 3(16) Fiduciary

The 3(16) Plan Administrator is designated by ERISA as the fiduciary responsible for the day-today administration of a retirement plan. These duties include:

- Ensuring timely and accurate filing of required forms, such as the Form 5500.
- Administering loans and distributions in compliance with plan provisions and retirement plan regulations.
- Providing required participant notices, including Summary Plan Descriptions (SPDs) and fee disclosures.
- Ensuring contributions are deposited promptly and processed correctly.
- Monitoring compliance with plan documents and regulatory requirements.

Failure to properly execute these tasks can expose plan sponsors to significant legal and financial risks, including penalties and lawsuits.

A 3(16) fiduciary provides expertise in retirement plan best practices, ensuring accurate and timely execution of administrative duties, reducing plan errors and improving operational efficiencies to drive better retirement plan outcomes.

The Challenges of Managing 3(16) Fiduciary Duties In-House

For business owners, fulfilling the 3(16) plan administrator role internally presents numerous challenges:

Resource Constraints

With small teams wearing many hats, managing retirement plan administration can strain staff already stretched thin.

Compliance Complexity

Keeping up with evolving regulations and plan requirements requires specialized knowledge and vigilance.

Risk Exposure

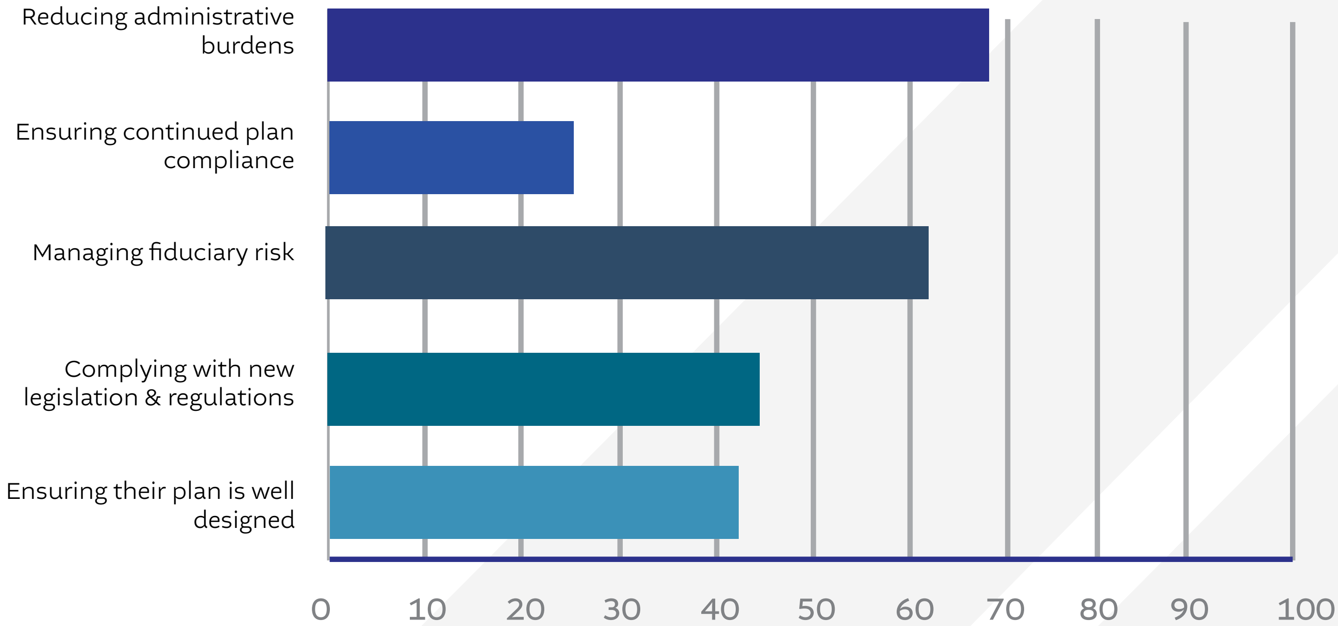
Errors in plan administration, even unintentional ones, can result in audits, penalties, and potential lawsuits.

Administrative Burdens

Plan administration is labor-intensive and prone to errors if handled manually or without adequate systems in place.

Advisors cite administrative burdens and fiduciary risk as chief concerns among clients in managing their retirement plans

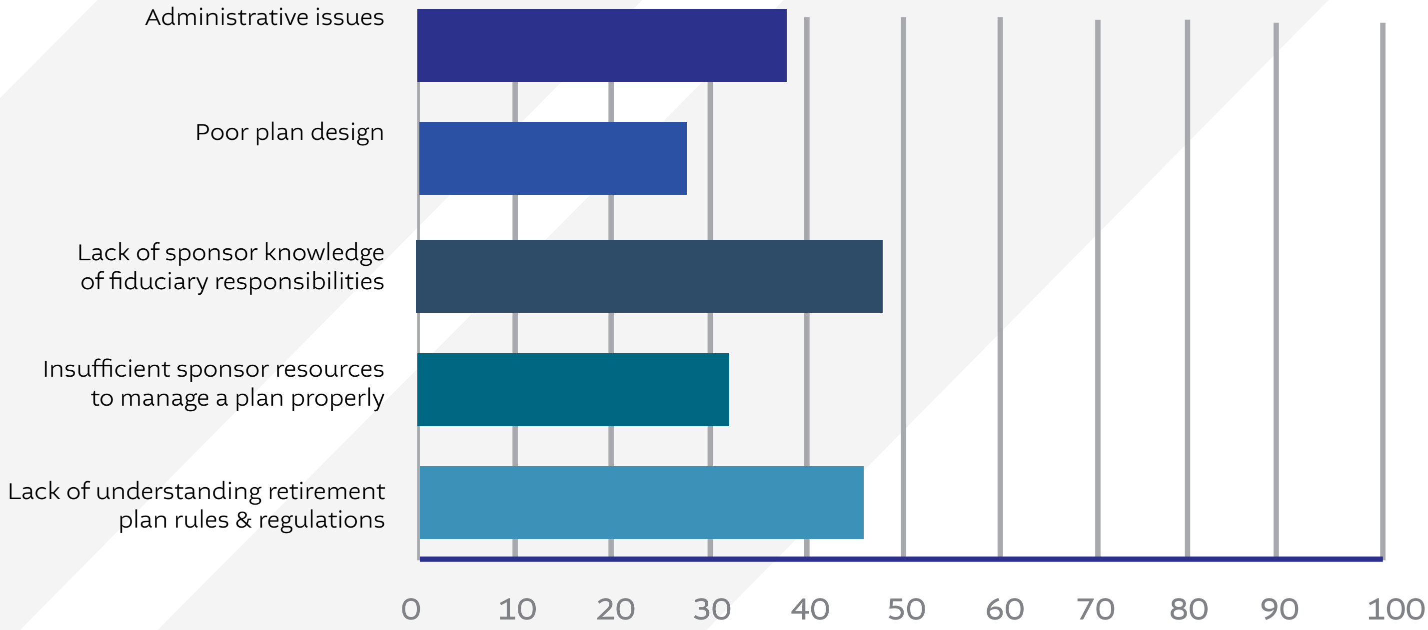
What are your clients' main concerns in managing their retirement plans?



Source: Pentegra 2025 Study on Advisor Attitudes Toward Fiduciary Outsourcing.

Advisors cite lack of sponsor knowledge of fiduciary responsibilities and retirement plan regulations as the greatest obstacles to retirement plan success

Which of the following do you believe are the biggest obstacles to retirement plan success?



Source: Pentegra 2025 Study on Advisor Attitudes Toward Fiduciary Outsourcing.

Plan Administrative Issues - A Look at the Numbers

It is often assumed that the greatest source of retirement plan liability lies with plan investments, but the reality is that the vast majority of lawsuits and regulatory actions involve failures in administration.

The Employee Benefit Security Association's (EBSA) Voluntary Fiduciary Correction Program (VFCP) and Delinquent Filer Voluntary Compliance Program (DFVCP) encourage the correction of violations of ERISA by providing significant incentives for fiduciaries and others to self-correct.

2024 Results as reported by EBSA

- 1,037 applications for the Voluntary Fiduciary Correction Program (VFCP)
- 20,009 applications for the Delinquent Filer Voluntary Compliance Program (DFVCP)
- 729 civil investigations
- 71% resulted in payment or other corrective action
- EBSA restored nearly $1.4 billion to employee benefit plans, participants and beneficiaries
- 177 criminal investigations; indictment of 68 individuals—including plan officials, corporate officers and service providers for offenses related to employee benefit plans

The IRS Top Ten List Of Common VCP Submissions

1. Failure to amend for tax law changes
2. Incorrect definition of compensation
3. Failure to include eligible employee or exclude ineligibles
4. Loan errors
5. Impermissible in-service withdrawals
6. Required Minimum Distribution errors
7. Employer eligibility failure
8. ADP/ACP failure not corrected timely
9. Failure to provide minimum top heavy benefit
10. Exceeding maximum contribution limits

Source: https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/ebsa-monetary-results

The Advantages of Outsourcing to a Professional 3(16) Fiduciary

Outsourcing 3(16) fiduciary responsibilities to a professional provider offers key benefits:

Regulatory Compliance Expertise: As retirement plan regulations continue to evolve, many plan sponsors find it challenging to stay compliant. Outsourcing to experts helps mitigate the risk of non-compliance and potential penalties.

Risk Mitigation: A strong fiduciary should take legal responsibility for plan administration to reduce the sponsor's liability.

Expertise and Efficiency: Specialized 3(16) fiduciaries bring deep expertise and robust systems to manage plan administration with accuracy and efficiency. Their knowledge of best practices minimizes errors and ensures seamless execution of administrative tasks.

Audit Support: In the event of a plan audit by the Department of Labor ("DOL") or Internal Revenue Service ("IRS"), a professional fiduciary takes the lead in managing documentation and responding to regulatory inquiries, alleviating stress and workload for the bank.

Improved Participant Outcomes: Professional 3(16) administrators also ensure timely and accurate participant communications, such as SPDs and fee disclosures, contributing to a positive plan experience for plan participants. Ultimately, this can help to foster greater employee retirement plan satisfaction.

Time Savings and Resource Efficiency: Managing retirement plans internally can be time-consuming. Outsourcing allows Human Resource and Finance teams to focus on core business operations while professionals handle plan administration.

Cost-Effectiveness: While outsourcing comes at a cost, it can often be more cost-effective than managing fiduciary duties in-house—especially when considering the cost of errors, legal fees, or penalties.

More than 80% of advisors view 3(16) fiduciary outsourcing as a retirement plan best practice.

Source: Pentegra 2025 Study on Advisor Attitudes Toward Fiduciary Outsourcing.

Selecting the Right 3(16) Fiduciary Partner

When choosing a provider, advisors and their clients should consider the following qualities:

Regulatory Compliance Expertise

Ensure they have deep knowledge of ERISA regulations and can keep the plan in full compliance.

Transparent Pricing

Understand the provider's fee structure and any additional costs.

Vendor Management

Partner with a provider that fulfills vendor risk management requirements and undergoes annual third-party audits.

Risk Mitigation

A strong fiduciary should take legal responsibility for plan administration to reduce the sponsor's liability.

Industry Experience & Reputation

Prioritize firms with a proven track record in managing 3(16) fiduciary duties.

Comprehensive Services

Look for a partner offering end-to-end plan administration support.

Commitment to Compliance

Verify the provider's processes for ensuring compliance with regulatory and legislative changes.

Insurance Protection

Verify the provider has the financial strength and insurance to withstand potential IRS and DOL fines and penalties.

Audit & Reporting Capabilities

Look for robust recordkeeping, error correction processes, and audit support.

Plan Sponsor Support

A good 3(16) fiduciary provides clear communication, ongoing education, and responsive support.

Service & Technology Integration

They should have secure systems for payroll integration, automated compliance checks, and real-time reporting.

Differentiating 3(16) Fiduciary Providers

A true 3(16) fiduciary stands in front of the client and not only does the work, but assumes responsibility for doing it correctly. How can you differentiate? Ask these key questions:

- Will your 3(16) provider act as the ERISA Named Plan Administrator? Are they named in the plan document? To what extent do they relieve you of fiduciary responsibility and potential liability?
- Will they sign and file the 5500 as a fiduciary?
- Will they act as your partner and support you in examinations and discussions with the DOL/IRS?
- What is their financial strength? Do they have "deep pockets" to stand behind their fiduciary services?
- Do they have fiduciary liability insurance that is sufficient to cover the claims of their clients?
- How long have they been providing 3(16) fiduciary services?
- Will they be responsible for approving and overseeing participant transactions? Do they monitor the timeliness of depositing voluntary employee contributions and proactively identify corrections and coordinate any needed actions?
- Do they hire the plan auditors and manage the audit process?
- If they make an error, will the provider make good on any losses such as earnings, fines, penalties, etc. that arise due to errors? What is the "statute of limitations" on how long you are covered?
- Do they complete a due diligence review of the plan's recordkeeper to ensure the promised services coordinate correctly? Can they produce a document evidencing that review?

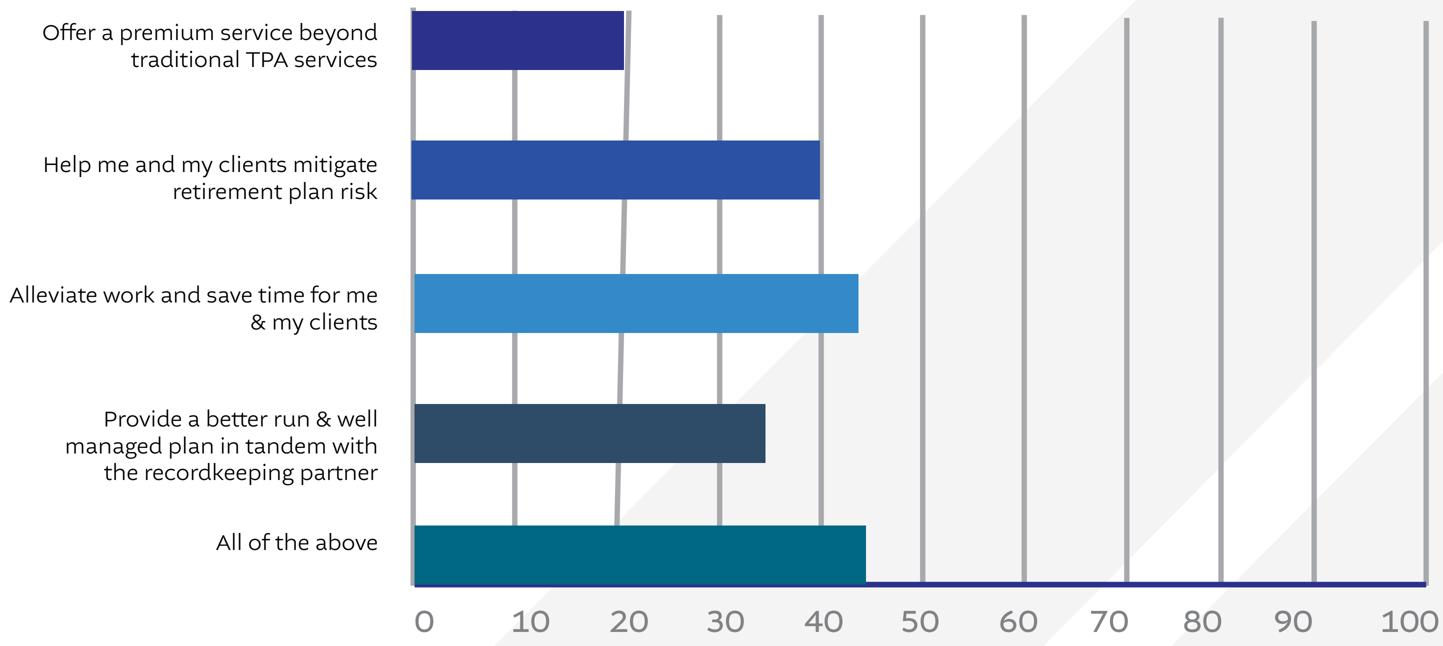
Outsourcing 3(16) fiduciary services is a growing trend.
Professional, independent fiduciary administration can lead to better efficiency, fewer errors, and a smoother participant experience. Access to expert oversight ensures plans remain compliant with evolving retirement plan regulations, reducing risk exposure for advisors and their clients.

Advisors are Partners in Plan Success

For financial advisors, integrating a 3(16) fiduciary solution into their service offering strengthens their role as a strategic partner in retirement plan management. By proactively addressing fiduciary oversight and administrative complexities, advisors can differentiate themselves in a competitive landscape. Offering fiduciary services not only enhances their value proposition but also aligns their interests with optimal client outcomes—demonstrating a commitment to fiduciary excellence,regulatory best practices, and placing client interests first.

Advisors see the value that 3(16) fiduciary outsourcing can offer their practice

What advantages do you feel 3(16) fiduciary outsourcing can offer your practice?



Advisors see 3(16) fiduciary outsourcing as a way to help **save time** and reduce administrative and compliance burdens. Outsourcing 3(16) fiduciary services can help advisors meet current and future client demands by freeing up valuable time and resources, allowing them to focus on delivering more specialized, value-added services.

Source: Pentegra 2025 Study on Advisor Attitudes Toward Fiduciary Outsourcing.

Conclusion

Outsourcing 3(16) Plan Administrator fiduciary duties to a professional is not just a compliance solution, but a strategic move that benefits both clients and advisors. By transferring these responsibilities to experts, businesses can reduce risk, streamline operations, and enhance the overall effectiveness of their retirement plans. For businesses looking to simplify plan management, partnering with a trusted 3(16) fiduciary provider is a valuable investment in long-term success.

By introducing a 3(16) fiduciary solution, advisors position themselves as proactive, knowledgeable partners who help clients navigate plan complexities. Adding fiduciary services can significantly elevate an advisor's value proposition, aligning their interests with the best outcomes for their clients, showcasing a commitment to putting client interests first and fostering long-term client retention and satisfaction.

About Pentegra

Pentegra is a leading provider of retirement plan and fiduciary outsourcing solutions to clients nationwide. With every opportunity, our goal is to create retirement plans that run with less risk, greater efficiency and improved outcomes. Today, Pentegra is one of the most experienced institutional fiduciaries in the nation.

Pentegra serves as an ERISA 402(a) Named Administrator, an ERISA 3(16) Named Plan Administrator, and Third Party Administrator (TPA). Pentegra offers these services in partnership with the leading recordkeepers in the industry. These services may be layered on top of existing recordkeeping and advisory relationships with no disruption, relieving plan sponsors of retirement plan administrative duties, streamlining operations and enhancing overall plan efficiencies and outcomes.

Learn more about the Pentegra 3(16) Fiduciary Outsourcing Advantage.
Contact the Pentegra Solutions Center at solutions@pentegra.com or 855-549-6689.

www.pentegra.com

http://316fiduciaryday.com