

401(k) Plan Roles & Responsibilities Defined

Many parties have a hand in establishing and maintaining a 401(k) plan, and each holds an integral part in making sure the plan works effectively for participants. Review the roles below to understand the parties involved and how they relate to the plan sponsor's fiduciary responsibility.

Plan Sponsor

A plan sponsor is the employer or company that establishes and maintains a retirement plan for their employees. Absent delegation, the plan sponsor is responsible for every facet of the qualified plan including the design, investment selection, administration, and reporting requirements. Most plan sponsors often use third parties to help manage these responsibilities and delegate the associated fiduciary duties to others.

Financial Advisor

A financial advisor provides services and experience in helping the plan sponsor with designing an investment policy, the selection and monitoring of the plan investments, and/or provide educational services to plan participants and plan fiduciaries.

Third-Party Administrator

A third-party administrator (TPA) provides on-going, comprehensive administrative services for employer retirement plans to help the plan sponsor remain in compliance with the complex tax laws that govern plan operations. They delve into all the technical aspects of administration that can make managing a 401(k) plan seem overwhelming, including the facilitation of plan compliance testing, preparing plan notices and tax filings, and assisting employers with questions that come up. The TPA remains closely involved and active on the plan, allowing the plan sponsor to focus on their business rather than on the time-consuming task of administering the 401(k) plan.

Recordkeeper

The recordkeeper is responsible for keeping track of participant accounts and allocating new contributions to the proper participant, according to their investment directions. Additionally, the recordkeeper provides plan participants and plan sponsors with access to their retirement account via online services, phone, and account statements.

Optional Roles:

While almost all 401(k) plans will have the roles previously outlined, there are a few other important roles to consider when deciding on a 401(k) plan and service provider. These roles may be optional and vary depending on the service offering or the plan sponsor's preferences.

Trustee

A Trustee is another named fiduciary (a person or group) recognized as having exclusive authority and discretion over the management and control of plan assets. This will usually be the owner(s) of the plan sponsor or a trust company.

Investment Fiduciary

The plan sponsor can delegate responsibility for plan investment policies to another party through naming an Investment Fiduciary in the plan document. When implemented, the responsibility for selecting and monitoring an Investment Manager is transferred from the Plan Sponsor to the Investment Fiduciary.

3(38) Investment Manager

The plan sponsor (or Investment Fiduciary) can name a 3(38) Investment Manager and delegate them to select, monitor, and manage investments for the plan. The Investment Manager has discretion over the funds in the plan and is accountable to the Investment Fiduciary.

3(16) Fiduciary

A 3(16) fiduciary role within a 401(k) plan that is typically fulfilled by the plan sponsor. The 3(16)'s responsibilities include the day-to-day plan administration. When adding 3(16) services to your plan, the 3(16) fiduciary may take on tasks such as the review and approval of rollovers, plan loans, and distributions, and the signing and filing of the annual form 5500.