The Value of an Independent 3(16) Fiduciary

A blog by Rich Rausser, CPC, QPA, QKA

How does one go about assessing a third-party fiduciary for your bank's retirement plan? I thought this might be a good time to revisit the issue, and to remind readers of what they should look for when considering an independent fiduciary.

When it comes to fiduciary duties and their retirement plan, many banks tend to focus on the participants and the investments and rely on outside professionals such as a 3(38) investment fiduciary and a recordkeeper to support their plan, but there's a missing piece. An independent 3(16) administrative fiduciary can provide an extra set of eyes on your plan. However, there are certain things to bear in mind when it comes to 3(16) fiduciary service providers.

Is the 3(16) provider truly independent, or are they "grading their own test"? Due to the very nature of how retirement plans are constructed, administered – and regulated – it is important that there be no conflicts of interest (real or perceived) as well as an assurance that there is an added level of oversight.

Other items to consider include specifying what the 3(16) provider's responsibilities encompass – and where they begin and end. While one of the primary reasons to hire a third party is to relieve the time and stress of doing it yourself, that does not mean you are entirely "off the hook" should questions arise. Who might ask such questions? The Internal Revenue Service (IRS) and the U.S. or your state Department of Labor (DOL), to name two. A professional third-party fiduciary will be able to explain where the various responsibilities in administering a retirement plan lie.

As a 3(16) administrative fiduciary, Pentegra will also provide compliance testing, review and approve plan distributions, ensure required plan notices are delivered, conduct regular due diligence reviews and proactively monitor the plan on an ongoing basis. Further, we will attend to plan audit oversight and we work with the external auditors and your team to resolve plan issues -- and deal directly with the IRS and DOL on your behalf, thereby further reducing your burden.

In addition, be sure the fiduciary you are considering does not take a "cookie cutter" approach. This is true in most business sectors, but can be an especially vital consideration when it comes to evaluating fiduciary service providers. Yes, there are certain templates that can be modified depending on such factors as company's/plan's size, its aims and goals, and its overall philosophy. But "modified" is the key word there. Everyone appreciates feeling like an individual in practically any service provider/customer relationship. Simply being put into "Box A" or "Box B" and forgetting about it (or being forgotten about) is unlikely to properly address your and your plan's participants' needs.

With such flexibility should come interactivity. Does your potential service provider offer a consultative and strategic approach to your retirement plan design? Will they furnish a thorough review of the existing program and provide peer analysis and competitive considerations?

Going hand-in-hand with those questions: Be sure you are working with an established, reputable firm. Again, this advice can be applied to nearly any business situation but is imperative when considering 3(16) fiduciaries. Research the prospective fiduciary: Has the company been CEFEX-certified by the Centre for Fiduciary Excellence? CEFEX is the only independent certification process that validates a third-party administrator (TPA) firm is utilizing best practices in conducting plan administration and operational compliance services.

Also, examine the certifications and experience of your prospective fiduciary's staff. Can they handle the complex range of issues that surround retirement plans? Look for personnel who have earned the American Society of Pension Professionals & Actuaries (ASPPA) designations of Qualified Pension Administrator (QPA); Qualified 401(k) Administrator (QKA); and/or CPC (Certified Plan Consultant).

You should also be sure that you and the third party have regularly scheduled meetings to discuss the plan(s)' performance, possible changes in strategy, new legal requirements, and so on. Be sure that you set aside the time to fully understand what is going on with your plan.

Finding the right third-party fiduciary for your retirement plan may take some legwork. But that legwork can pay great dividends – not only monetarily, but also in peace of mind.