



The Benefits of Community Banks Outsourcing 401(k) 3(16) Plan Administrator Fiduciary Duties to a Professional

A WHITE PAPER BY

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Community banks play a vital role in supporting local economies, but their limited resources often require bank employees to juggle multiple responsibilities. Managing a 401(k) plan—a critical benefit for attracting and retaining talent—adds another layer of complexity. The role of the 3(16) Plan Administrator under the Employee Retirement Income Security Act of 1974 (“ERISA”) is particularly demanding, encompassing plan operations, regulatory compliance, and participant communications. For community banks, outsourcing 3(16) fiduciary responsibilities to a professional provider can be a strategic decision that delivers substantial benefits.

Understanding the Role of a 3(16) Fiduciary

The 3(16) Plan Administrator is designated by ERISA as the fiduciary responsible for the day-to-day 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.



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

For community banks, 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 Burden:** Processing distributions, loans, and contributions is labor-intensive and prone to errors if handled manually or without adequate systems in place.



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

By outsourcing 3(16) fiduciary responsibilities to a professional provider, community banks can unlock several key benefits:

1. Risk Mitigation

Professional 3(16) fiduciaries assume legal responsibility for plan administration tasks, significantly reducing the bank's liability when it comes to their retirement plan. These providers are well-versed in ERISA regulations, ensuring that plan operations adhere to the highest compliance standards.

2. Expertise and Efficiency

Specialized providers 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.

3. Focus on Core Banking Activities

Outsourcing allows community banks to redirect internal resources and energy toward serving their customers and supporting local economic growth rather than getting bogged down by the intricacies of plan administration. Many community banks outsource the information technology (IT) department functions due to the complexity and costs. Outsourcing retirement plan administration is very similar.

4. 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.

5. Enhanced Participant Experience

Professional 3(16) administrators ensure timely and accurate participant communications, such as SPDs and fee disclosures, contributing to a positive plan experience for plan participants. This helps community banks retain talent and foster employee satisfaction.

Selecting the Right 3(16) Fiduciary Partner

When choosing a provider, community banks should look for the following qualities:

- **Experience and Track Record:** Ensure the provider has a proven history of managing 3(16) fiduciary duties for financial institutions and small businesses.
- **Comprehensive Services:** Look for a partner offering end-to-end plan administration support.
- **Transparent Pricing:** Understand the provider's fee structure and any additional costs.
- **Commitment to Compliance:** Verify the provider's processes for staying up to date with regulatory changes.
- **Vendor Management:** Considering the regulatory environment for community banks, it is important to partner with a provider that fulfills vendor risk management requirements and undergoes annual third-party audits.
- **Insurance Protection:** Verify the provider has the financial strength and insurance to withstand potential IRS and DOL fines and penalties.

Conclusion

Outsourcing 3(16) Plan Administrator fiduciary duties to a professional is not just a compliance solution but a strategic move that benefits both community banks and their employees. By transferring these responsibilities to experts, community banks can reduce risk, streamline operations, and enhance the overall effectiveness of their retirement plans. For community banks looking to simplify their 401(k) plan management, partnering with a trusted 3(16) fiduciary provider is a valuable investment in long-term success.





About Pentegra

Pentegra Services, Inc. ("Pentegra") is a valued member of the ABA's Partner Network and one of the leading institutional fiduciaries in the nation. Pentegra was formed as a not-for-profit cooperative by the Federal Home Loan Bank (FHLB) System in 1943 to help the FHLBs and their members more effectively and efficiently manage their defined benefit retirement plans. Today, Pentegra works with over 500 community bank 401(k) and defined benefit plans.

Pentegra serves as the Third Party Administrator (TPA), the ERISA 3(16) Named Plan Administrator, and Investment Fiduciary for the Pentegra Defined Contribution Plan for Financial Institutions, a multiple employer plan. This plan includes over 250 community banks as members, offering the comprehensive fiduciary outsourcing for their retirement committee and board members.

Community banks can also benefit from Pentegra's fiduciary outsourcing solutions without joining the multiple employer plan. Pentegra provides TPA services and ERISA 3(16) Plan Administration services with many of the country's national recordkeepers, allowing banks to continue working with their current recordkeeper and financial advisor.

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