What is a Fiduciary?

FuturePlan
by Ascensus

Insights from a Former Industry Outsider

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The retirement industry: How did I get here?

Before jumping into retirement, I spent seven years in the agriculture industry My work life prior to FuturePlan included talking about corn hybrids and soybean varieties, visiting farms, and getting excited about yields. I loved watching the progression from planting to harvest – seeing the investment and hard, calculated work of a farming operation pay off as the crop grew. I loved watching the numbers on the combine climb as the grower reaped his or her reward for that work and investment.

However, with a connection in the retirement industry, I found myself in conversations regarding a career change. I still remember a call with my now-boss, discussing my possible relocation. She casually mentioned she had just left a meeting where they were discussing the plan for their "fiduciary business".

I remember not asking her what in the world that meant; I didn't want to look like a total fool. Then, I googled the word, only to still feel very confused. The term still seemed vague and unclear. Did it really have five syllables? I joked with my agriculture friends that I was in trouble since I couldn't figure out what fiduciary meant. They didn't know, either.

Who knew about all this work?

Fast forward a few years and several very smart people have explained a lot to me about retirement plans. I learned:

- There's a limit to how much you can contribute each year (who knew?)
- Payroll and retirement are connected and several steps occur to get the money to my account (you mean my deferral doesn't magically just end up in my 401(k)?)
- A ridiculous amount of options exist for retirement plans (I thought it was just a 401(k) and/or a Roth),
- With all the pieces and parts and administrative tasks, so much can go wrong!

My intent isn't for that last line to scare anyone. I have just been flabbergasted at the amount of tasks, steps, and regulations involved in a plan. As an outsider, this was shocking to me. I found myself thinking: did my old employer do all of this? I never even knew!

This has also led me to a greater understanding of the term fiduciary and why it's important in the retirement world.

So, what does "fiduciary" actually mean?

When I googled it, the internet essentially said a fiduciary was a person or entity required to act in the best interest of someone else. This didn't help my understanding much.

Keep in mind that I am a marketing professional who runs her materials by people with numerous letters after their names. I'm not an ERISA expert. Luckily, FuturePlan employs several. (This is my disclaimer that this article is my understanding after three years in the industry, and shouldn't be taken as legal gospel.)

My understanding is this: a fiduciary, as it relates to retirement plans, takes on liability for specific actions and responsibilities within the plan. If the fiduciary makes a mistake, the liability is on them. I believe this is always somewhat shared with the plan sponsor, but it is lessened with fiduciaries. If the ship starts sinking, the fiduciary is on it. They are invested in the plan and share liability.

The quantity of administrative work

OK, so you're a client or prospective client and you've been told something about a 3(16) service provider. Maybe you've been told you need one, and that it will keep you and your plan "safe". Or maybe you've heard that they will take on tasks so you have significantly less work to do. You also might have heard they're a waste of money. No matter what you've heard, they're definitely a popular subject in the industry today.

However, it seems no 3(16) does the same thing. Each provider probably has a different checklist of the items they complete. Some may just sign the Form 5500 and send notices. Others may complete almost all the administrative tasks associated with the plan. If you're wondering what those tasks are and why a 3(16) provides any value, let me explain with a few illustrations.

What exactly is this administrative work?

In order to help me understand retirement plans and our 3(16) fiduciary services, a colleague took the time to sit down with me and explain the plan sponsor's required, behind-the-scenes work. Here are just a few examples of business activities and the tasks associated with them in retirement plan.

- **A new employee starts.** Plan sponsors are responsible for providing plan documentation, sending the enrollment kit, providing the initial notices and fee disclosures, and setting up the employee with the recordkeeper.
- **An employee changes their deferral rate.** The plan sponsor must approve the deferral change and update the payroll system for the employee. (I'm going to be honest, this kind of shocked me. I was fairly certain by simply clicking on my deferral rate increase button, it just happened instantly.)
- **An employee resigns or is terminated.** In this case, distribution paperwork must be sent, any withdrawals must be approved, the plan exit must be initiated and managed, eligibility must be updated with the recordkeeper, and plan communications must be maintained.

And the list goes on. Actions like this must also be taken for numerous other business activities: every payroll run, any time an employee updates their personal information, any time an employee requests a loan or hardship distribution, etc. In addition, there's also a long list of annual requirements for maintaining the plan.

So, this is the work 3(16) providers do. They step into the plan sponsor's seat and take care of these items, so the plan sponsor can focus on their business. However, as mentioned before, 3(16) providers offer varying levels of service and task management. This is one important aspect to be aware of when reviewing 3(16) providers. The other is the quality of the provider's work and why it's important.

The quality of work and data integrity

The quality of the work done by a 3(16) provider is obviously important, since they're essentially responsible for the plan's compliance. They must work to keep the retirement plan free from errors. I've learned a lot about these errors and where they originate, too.

I've learned that plan sponsors (or their payroll companies), provide payroll data to the recordkeepers, and this feeds the activities associated with the plan. Plan sponsors may assume that recordkeepers are checking these files for mistakes or are ensuring that no required information is missing, but they are not. It is not their job. Whose job is it to ensure this data is complete and accurate? It's the plan sponsor's job.

You may also think, “Well, surely payroll data errors aren’t common!” You would be wrong.

Payroll data includes birth dates, hire dates, social security numbers, and a plethora of other information. Often, there are seemingly simple errors contained in these files that get fed to the recordkeeper and create costly plan errors.

Errors and data checks

So, if a payroll error seems like an unclear concept that doesn’t apply to you, perhaps I can help explain by sharing a few examples of errors we have found recently.

- **Duplicate files.** On more than one occasion, we’ve seen employers submit the same payroll file twice in a row. Our system flags this duplication and we reach back out to retrieve the correct file without creating incorrect retirement plan data and issues down the road.
- **SSN manual entry error.** One employer recently transposed the SSN of an employee, accidentally creating a “new” employee while also distorting the records of the actual employee. We caught this and fixed it quickly before it became a problem.
- **Missing or incorrect dates.** Several employers submit payroll files that are missing the date of birth or hire, or have this information incorrect. If these are inaccurate, vesting, eligibility, and other important aspects of the participant’s information and plan are also inaccurate.

These are just a few common errors, and they can lead to several costly issues in the plan. FuturePlan utilizes a system that completes over 100 data integrity checks on payroll files, catching and fixing these errors before they become real problems. Our team finds errors in over 50% of the payroll files they review. That’s how frequently they occur.

Why it matters

How are business owners expected to know and manage all of these retirement plan details? I have a few entrepreneurial friends, and while they are incredibly smart in their respective fields, I’m willing to bet they don’t know how to administer a retirement plan. My guess would be that they don’t know that payroll and retirement are closely connected, or the risks associated with errors in payroll data. They probably have no knowledge of the rules and regulations from the IRS and DOL. This is exactly why a good 3(16) fiduciary is an important investment.

Over the course of the last three years, I’ve learned a lot. Helpful, kind, and wise people have taught me about fiduciaries, the complexities of retirement plans, and most importantly, their passion for helping business owners and participants reach their retirement goals. It’s not that different from farming: we’re seeing clients reap the benefits of their investment and hard work. Good 3(16) fiduciaries help with that. They help protect that investment, keeping it safe from risk, erosion, errors, and penalties.