How to Reduce Friction *in Your 401(k) Plan*

Practical Guidance for HR Professionals

Where Most Retirement Plan Problems Actually Come From

When most people think about retirement plans, they think about market performance and investment selection.

In reality, the issues that create the most cost, liability, and burden for employers have nothing to do with investments.

These are the issues this session addresses.

- Employee wasn't enrolled on time
- Payroll deductions were incorrect
- Compensation definition was misunderstood
- Contributions weren't deposited timely
- Loan or distribution was processed incorrectly
- Participant communications not provided timely

About The Pension Source & 401K Safe

the pension source

Third-Party Administration (TPA) Services

401K SAFE

Outsourced Administrative Fiduciary

45+	2,500+	1 Day	100%
Years in Business	Plans Administered	Response Commitment	Independent Ownership

401(k), cash balance, and defined benefit plan administration · 3(16) fiduciary services · Payroll contribution monitoring
Stuart, FL & Nashville, TN

01

Understanding the Players

Who supports your retirement plan — and who owns what?

Who Supports Your Retirement Plan?

Employer / Plan Sponsor / Trustee

Holds legal fiduciary responsibility. Signs the plan document. Ultimate ownership of retirement plan decisions.

HR Team

Tracks eligibility, manages enrollment, coordinates with payroll and vendors. Some potential fiduciary liability

Payroll Provider

Calculate/withhold deferrals and employer contributions. A major source of operational errors. Can also be the 401(k) provider.

Recordkeeper

Holds plan assets, provides participant statements, processes transactions.

Financial Advisor

Investment selection and monitoring; employee education; often the employer's primary retirement plan contact.

TPA (Third-Party Administrator)

Plan design consulting, regulatory expert, compliance testing, Form 5500, plan document maintenance, and knowledge hub — independent of asset management. Independent from recordkeeper

02

SECURE 2.0: What HR Needs to Know

~375 pages. ~100 changes. Here's what actually affects you.

Two SECURE 2.0 Changes That Land on HR's Desk

Long-Term Part-Time Employees

Employees working 500+ hours per year for two consecutive years must now be offered plan participation — even without meeting standard eligibility requirements.

This catches employers off guard, particularly those with seasonal or part-time workforces.

Case Study:

Seasonal workers satisfied LTPT eligibility undetected for years. Discovered late, requiring retroactive corrections.

Automatic Enrollment (New Plans)

Plans established after December 29, 2022 must include automatic enrollment at a minimum 3% deferral, escalating annually by at least 1%.

Applies to all employers (with minor exceptions). Correct payroll setup at launch and active monitoring of participant elections are critical.

Case Study:

Auto-enrollment adopted but payroll setup was incomplete. Multiple new hires never entered the plan — requiring corrective contributions.

03

Seven Common Mistakes — and How to Prevent Them

Where errors originate, how they're discovered, and what correction looks like.

Mistake #1: Missed Eligibility

What Happened

A new employee became eligible on July 1. Eligibility was tracked manually in a spreadsheet by one HR manager — who then turned over. The tracking lapsed. The employee wasn't enrolled until January, six months late.

The plan sponsor made corrective contributions, including lost earnings, and filed an EPCRS correction.

Why It Keeps Happening

Eligibility logic lives in people, not systems. When that person leaves, the process leaves with them.

KEY TAKEAWAY

Never rely on memory or a single person for eligibility tracking.

Recordkeeping integrations help — but they require clean data going in and human review.
Garbage in, garbage out.

Mistake #2: Enrollment Failures

What Happened

An employee completed enrollment paperwork and selected their contribution rate. HR considered the process complete.

Payroll was never updated. No contributions were withheld. The error wasn't discovered until the annual compliance review — nearly twelve months later.

Correction required employer-funded contributions for the entire missed period, including lost earnings.

The Core Problem

Enrollment is complete when the money moves — not when the paperwork is signed.

KEY TAKEAWAY

Enrollment is not complete until payroll confirms that deductions are occurring.

Integrations help but are imperfect and can still cause errors. Employees should verify their first paystub.

This applies to affirmative and negative elections regarding Automatic Enrollment.

Mistake #3: Payroll Errors

What Happened

An employee requested to increase their deferral from 5% to 10%. The change was submitted and acknowledged by payroll.

The change was never applied. The error persisted for nine months before discovery.

The employer was responsible for corrective contributions and associated earnings.

Why Payroll Creates Risk

Payroll is the single largest source of retirement plan operational failures. Acknowledgment of a change request is not the same as implementation.

KEY TAKEAWAY

Trust but verify.

A confirmed change request is the beginning of the process, not the end. Review contribution reports each payroll cycle.

Mistake #4: Compensation Definition Errors

What Happened

A plan document defined compensation as base wages, excluding bonuses. Payroll calculated deferrals on total compensation — including bonuses.

This caused the plan to fail ADP nondiscrimination testing. Corrective distributions were required.

This error is almost never caught without a TPA reviewing payroll configuration against the plan document.

The Key Insight

Retirement plan compensation is defined by the plan document — not by how your payroll system is configured.

KEY TAKEAWAY

Ask your TPA: “Does our payroll compensation definition match the plan document?”

Correct compensation is critical!

Mistakes #5 & #6: Distributions and Late Deposits

#5 · Loans & Distributions

A distribution was processed without all required documentation, and it was processed incorrectly. Identified during a plan audit — requiring correction and significant administrative cost.

Distributions involve HR, the recordkeeper, and the TPA. When responsibility is unclear or there is poor oversight, issues can arise.

Distributions are among the highest-risk transactions in a retirement plan.

#6 · Late Contribution Deposits

Employee deferrals were withheld from payroll but routinely deposited weeks later.

The DOL requires contributions to be deposited as soon as reasonably possible — typically within 3–7 business days.

Correction required VFCP filing and payment of lost earnings.

The DOL takes deposit timing seriously. It is one of the first things auditors will check. Also, it is required to report late deposits on Form 5500.

Mistake #7: Participant Communications & Required Notices

What Happened

A company changed recordkeepers and assumed participant notices would automatically be handled as part of the transition.

Several required notices were either delivered late or not delivered at all. The issue was not discovered until an employee complaint triggered a review.

The employer had to reconstruct records, demonstrate compliance, and work with service providers to address the failure.

Why It Keeps Happening

401(k) plans involve multiple moving parts and service providers have different capabilities. When responsibilities are not clearly assigned, everyone assumes someone else is handling the notice.

KEY TAKEAWAY

Communication responsibilities should be clearly documented and reviewed annually.

Know who is responsible for each required notice, where delivery records are maintained, and where employees should be directed for assistance.

Even when outsourced, periodically verify that delivery occurred and maintain documentation.

04

Reducing Administrative Burden

What can be outsourced — and how much has to stay in-house?

Most of These Functions Can Be Formally Outsourced

Function	Error Risk	Can Be Outsourced?
Eligibility Tracking	HIGH	Yes — TPA or 3(16) fiduciary
Enrollment Administration	HIGH	Yes — 3(16) fiduciary
Required Participant Notices	MEDIUM	Yes — TPA or 3(16) fiduciary
Loan Processing	HIGH	Yes — 3(16) fiduciary
Distribution Processing	HIGH	Yes — 3(16) fiduciary
Payroll Contribution Monitoring	MEDIUM	Yes — 3(16) fiduciary with payroll access
Form 5500 Coordination / Signing	HIGH	Yes — TPA and 3(16) Fiduciary

Many employers are surprised by how much can be formally delegated — including co-fiduciary responsibility.

Questions Every HR Team Should Be Able to Answer

How do we track eligibility?

Is this in a system, or does one person know it?

Who monitors contribution deposit timing?

Do you know your average time from payroll to posting?

Who verifies enrollments made it to payroll?

Is there a closed-loop confirmation step?

Who reviews distribution and loan documentation?

Is there a checklist? Who owns it?

Who reviews payroll changes to confirm implementation?

Is acknowledgment enough, or is there verification?

If the person handling this left tomorrow, what would break?

Process resilience — the most important question.

Key Takeaways

01 Most retirement plan failures are administrative — not investment-related.

02 Payroll and compensation are the largest sources of operational errors.

03 SECURE 2.0 created new eligibility and enrollment obligations for HR.

04 Regular internal reviews prevent expensive IRS and DOL corrections.

05 Many administrative functions — including co-fiduciary responsibility — can be outsourced.

If the person handling your plan administration left tomorrow — would your process still work?

We welcome conversations about any plan situation — new plan, complex design, or an existing arrangement in need of a second opinion.

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