

Payroll Providers 401(k) TPAs Are A Convenience Trap

By Ary Rosenbaum, Esq.

I've been around this business long enough to know that not every opinion ages well. Some soften, some mature, and some just fade away as experience replaces instinct. I used to think rap music had nothing to offer. I was wrong. I thought golf was a waste of time. Wrong again. Even my early skepticism about producing TPAs changed once I saw what the good ones actually do. But there's one opinion that hasn't budged in over a decade: the two largest payroll provider TPAs still aren't very good at what plan sponsors actually need them to do.

When Convenience Becomes Risk

Plan sponsors are sold on convenience. One provider, one platform, one login, one relationship. It sounds efficient, clean, and modern. But convenience in retirement plan administration often masks complexity rather than eliminating it. What appears seamless on the surface can conceal operational gaps that only show up when something goes wrong. And in this business, something always goes wrong.

The Sales Pitch vs. The Reality

The promise is always the same: integration. Payroll flows directly into the retirement plan. Deferrals are calculated automatically. Eligibility is tracked without effort. Compliance testing becomes a background function. What sponsors actually get is a system that depends heavily on correct inputs, rigid structures, and limited flexibility. When the facts on the ground don't fit neatly into that system, the cracks begin to show.

Payroll Is Not Plan Administration

Payroll providers are very good at payroll. That's their lane. But retirement plan administration is not just an extension of payroll. It requires interpretation, judgment, and a working knowledge of rules that don't always align cleanly with payroll data. Eligibility provisions, compensation definitions, and plan-specific nuances don't always translate into automated processes. When those differences

question whether that data makes sense. It won't flag inconsistencies unless they fall within predefined parameters. And it won't recognize when a plan sponsor's operations don't match the plan document.

The Illusion of "Set It and Forget It"

Plan sponsors are often led to believe that once the system is in place, the plan will run itself. That's a dangerous assumption. Retirement plans require oversight, periodic review, and an understanding of how the plan operates in practice. When sponsors rely too heavily on the platform, they stop asking questions. And when they stop asking questions, errors go unnoticed until they become problems.

When Errors Surface, So Does Confusion

When something breaks, clarity disappears. The payroll side points to the retirement side. The retirement side points back to payroll. The advisor is left trying to translate between two systems that don't fully communicate. The sponsor, who expected simplicity, now faces complexity they weren't prepared for. And the clock is ticking, because many errors carry correction deadlines and potential costs.

Fiduciary Responsibility Doesn't Disappear

One of the most misunderstood aspects of these arrangements is responsibility. Plan sponsors often assume that by using a large, well-known provider, they've reduced their risk. In reality, they've often just shifted operational responsibility without reducing fiduciary exposure. The duty to ensure the plan is operated correctly still rests with the sponsor, regardless of who is providing the service.



es arise, the system doesn't adapt well.

Automation Without Understanding

Automation is only as good as the assumptions behind it. Payroll provider TPAs rely on automation to scale their services, but automation without deep understanding creates blind spots. A system can process data all day long, but it won't

Standardization vs. Real-World Complexity

Large payroll provider TPAs depend on standardized processes. That's how they manage volume. But retirement plans are not always standard. Businesses change, employee populations shift, acquisitions happen, compensation structures evolve. Standardized systems struggle with these changes. They handle the average case well, but they falter when a plan requires customization or nuance.

Support Models Built for Volume, Not Depth

When issues arise, plan sponsors enter a support structure designed for efficiency, not expertise. Calls are routed, tickets are opened, responses are templated. The person on the other end may be helpful, but they are often constrained by the system they operate within. Complex issues take time to escalate, and by the time they reach someone with deeper knowledge, the problem has usually grown.

The Cost of Getting It Wrong

Mistakes in retirement plans are not minor inconveniences. Missed deferrals, incorrect eligibility determinations, or failed compliance tests can require corrective contributions, notices, and filings. These corrections cost money, time, and credibility. What was sold as a cost-effective solution can become expensive very quickly when errors accumulate.

Why Producing TPAs Still Matter

This is where perspective matters. Over time, I've come to appreciate the role of a good producing TPA. They don't rely solely on systems. They rely on experience. They ask questions when something doesn't look right. They understand that no two plans operate exactly the same way. And when issues arise, they don't hide behind a platform, they address them directly.

Accountability Is the Missing Piece

In many payroll provider TPA models, accountability is diffused. Responsibility is shared across departments, systems, and processes. That makes it difficult to pinpoint ownership when something goes wrong. A producing TPA, at its best, provides a clear point of accountability. There is someone who knows the plan, understands the sponsor, and takes ownership of the outcome.



What Plan Sponsors Should Be Asking

Plan sponsors need to ask harder questions. How is eligibility tracked when employees don't fit standard patterns? What happens when payroll data is incomplete or inconsistent? Who reviews compliance results, and how are anomalies handled? What is the escalation path when something doesn't make sense? These are not technical questions, they are practical ones that reveal how the system actually works.

Convenience Should Not Replace Oversight

There's nothing wrong with wanting simplicity. Plan sponsors have businesses to run. But simplicity should not come at the expense of oversight. The more automated the system, the more important it is to understand its limitations. Blind reliance on any platform, no matter how large or well-marketed, creates risk.

An Opinion That Hasn't Changed

I've changed my mind on a lot of things over the years. Experience has a way of doing that. But my view on the two largest payroll provider TPAs hasn't changed because the underlying issues haven't changed. The model still prioritizes scale over substance, efficiency over expertise, and convenience over accountability.

A Final Warning to Plan Sponsors

Plan sponsors don't need to abandon technology or integration. But they do need to approach it with clear eyes. The platform you choose will not eliminate your responsibility, and it may introduce risks you didn't anticipate. The goal isn't to find the easiest solution, it's to find the right one. And in retirement plans, the right solution is rarely the one that promises to do everything without your involvement.

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**The Rosenbaum Law Firm P.C.
734 Franklin Avenue, Suite 302
Garden City, New York 11530
(516) 594-1557**

<http://www.therosenbaumlawfirm.com>