4 Hidden Tradeoffs of Bundled 401(k) Providers

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Plan Consulting • Administration • Design

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4 Hidden Tradeoffs of Bundled 401(k) Providers

Payroll providers often market bundled 401(k) plans as a simple, all-in-one solution. The convenience of having payroll, recordkeeping, and retirement plan administration under one roof can be appealing, especially for small and midsize businesses. However, convenience does not always translate into the best long-term outcome for the plan or its participants.

For plan sponsors, understanding the potential drawbacks of bundled payroll provider 401(k) plans is essential when fulfilling fiduciary responsibilities and ensuring employees receive a competitive retirement benefit.

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1. Hidden Plan Costs

Bundled solutions frequently promise streamlined administration and fewer vendors to manage. While these advantages may exist in some situations, they can often mask higher overall costs. Some bundled providers include administrative fees within asset-based charges or package multiple services together, making it difficult to determine exactly what each service costs.

This lack of transparency can make benchmarking against independent providers more challenging. Plan sponsors have a fiduciary obligation to ensure fees are reasonable. If costs are difficult to identify or compare, demonstrating prudent oversight becomes more complicated.

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2. Restricted Investment Options

Many payroll provider 401(k) plans offer a restricted investment menu that emphasizes proprietary funds or preferred investment managers. Although these options may be suitable for some participants, they can limit access to lower-cost index funds, specialized investment strategies, or best-in-class fund managers. Independent recordkeepers and open-architecture platforms generally provide greater flexibility, allowing fiduciaries and advisors to build investment menus based on participant needs rather than provider preferences.

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3. Lack of Independent Oversight

When one company serves as the payroll provider, recordkeeper, administrator, investment advisors and investment platform, conflicts of interest may arise. A provider may have financial incentives to promote proprietary investments or bundled services instead of recommending the most appropriate solution for the plan. An independent advisor who is not tied to a specific recordkeeper or investment platform can provide more objective guidance when evaluating service providers and investment options.

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4. Limited Transition Flexibility

One of the most overlooked disadvantages of having one party serve all functions for your plan is the difficulty of changing providers. Because payroll systems are deeply integrated into retirement plan operations, replacing a bundled provider often requires changing both payroll and the 401(k) plan simultaneously. This increases the complexity, cost, and disruption of making a change.

As a result, some employers remain with underperforming providers simply because the transition appears too burdensome. Where an unbundled arrangement allows you to bring coordinated professionals together to maximize your plan and easily allows for one party to be replaced without requiring changes to payroll or all parties at the same time.

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Why Independent Expertise Matters

Payroll companies excel at processing payroll. Retirement plan success requires a different set of expertise.

Plan sponsors often need assistance with their retirement plan fiduciary governance, investment monitoring, participant education, compliance testing, plan design optimization and regulatory changes. Large payroll providers typically rely on centralized call centers and standardized service models.

While efficient, they may not provide the personalized strategic guidance that many employers need. Independent retirement plan consultants and financial advisors with dedicated retirement plan knowledge have the depth to guide plan sponsors through all of these issues.

Independent retirement plan consultants frequently recommend design improvements such as:

- Automatic enrollment enhancements
- Automatic escalation
- Profit-sharing allocations
- Safe harbor plan designs
- New comparability formulas
- Student loan matching provisions
- Retirement income features

Bundled providers and payroll platforms often focus on standardized plan designs that fit large numbers of clients and provide relatively basic participant experiences rather than customized solutions that maximize employee outcomes and employer objectives. Today's employees expect intuitive digital tools, personalized retirement guidance, and engaging educational resources. Retirement plans should also evolve alongside an organization's workforce and business objectives.

Better participant engagement can lead to:

- Higher participation rates
- Increased savings rates
- Improved investment diversification
- Greater retirement readiness

Convenience Without Compromise

Historically, one of the strongest arguments for bundled payroll providers was seamless payroll integration. Today, however, many independent recordkeepers integrate directly with hundreds of payroll systems through secure APIs and automated data exchanges. Employers can often enjoy the same payroll efficiency without sacrificing investment flexibility, service quality, or provider independence. Regardless of how many services are bundled together, employers retain significant fiduciary responsibilities under retirement plan regulations.

Plan sponsors remain responsible for monitoring:

- Fees
- Investment performance
- Service quality
- Provider performance
- Participant outcomes

Choosing a bundled provider does not eliminate these obligations.
For very small employers launching their first retirement plan, a bundled payroll provider may offer an affordable and straightforward starting point. Organizations with simple needs and limited administrative resources may find the convenience worthwhile. However, as plans increase in assets and participants, sponsors should periodically evaluate whether their bundled solution continues to serve the best interests of employees.

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A Smarter Way to Evaluate Your Plan

Before selecting—or renewing—a bundled payroll provider, consider the following questions:

- Are all plan fees fully transparent?
- Is the investment lineup open architecture or primarily proprietary?
- Can we easily change recordkeepers without changing payroll providers?
- How often are investments benchmarked?
- What level of fiduciary support is included?
- How is participant education delivered?
- Does the provider proactively recommend plan design improvements?
- Are payroll integrations available with independent recordkeepers?

Bundled payroll provider 401(k) plans offer simplicity, but simplicity should not be confused with optimal plan management. Restricted investment options, hidden plan costs, lack of independent oversight, and limited transition flexibility can all affect the long-term success of a retirement plan.

A periodic review of plan fees, services, investment options, and participant outcomes helps ensure the plan continues to meet fiduciary standards and supports employees' retirement goals. In many cases, employers discover that an unbundles service model that includes an independent retirement plan consultant (TPA), and independent retirement plan advisor and open-architecture recordkeeper can provide greater flexibility, enhanced service, and stronger long-term value while maintaining seamless payroll integration. RMS serves as an independent retirement plan consultant. Please contact us if you would like to discuss the benefits of having a true retirement plan consultant on your administrative team.