Don't Hire Your Payroll Provider As Your 401(k) TPA

By Ary Rosenbaum, Esq.

If you're thinking of hiring your payroll provider to also serve as your 401(k) plan's third-party administrator (TPA), stop. Think again. Then think again harder. I've been an ERISA attorney for more than 25 years. In that time, I've cleaned up more compliance messes caused by payroll providers moonlighting as TPAs—specifically ADP and Paychex—than I care to count. And the problems are rarely one-off accidents. They're systemic. They're baked into the business model. And they're costing plan sponsors like you money, time, and peace of mind. Let's get this out of the way early: payroll has almost nothing to do with plan administration. If your salesperson is telling you otherwise, they're either uninformed or spinning you a story to make a sale. 401(k) administration isn't about processing checks or cutting W-2s. It's about plan design, compliance testing, government filings, fiduciary oversight, and understanding the plan document like it's gospel. The only real connection between payroll and your 401(k) plan is deferrals and compensation. That's it. So the idea that using your payroll provider as TPA will "streamline everything" is a mirage—and a dangerous one.

The 360° Integration Sales Pitch Is Overrated

The big marketing gimmick from ADP and Paychex is their "360 integration." Sounds cool, sounds tech-savvy. But it's a hollow promise. Integration doesn't equal competence. It doesn't catch plan design issues, compliance failures, or outdated documents. It doesn't protect you in an audit. And here's the kicker—these same payroll providers also offer integration with outside TPAs. So if this integration is so critical, why do they give it away to the competition?

Because payroll is their core business. Administration is just a revenue add-on. Unlike Coca-Cola, which guards its secret recipe, ADP and Paychex are more than happy to give other TPAs the keys to the integration kingdom. That's all the proof you need that the TPA service isn't integral to their brand—just another product on the menu.

Plan Administration Is Not Plug-and-Play

Plan administration is highly technical. It's governed by the Internal Revenue Code and ERISA. It requires real expertise and regular human oversight. Your plan needs to be tested for nondiscrimination. It needs to have proper plan documents that are kept up-to-date. You've got to make required filings like Form 5500 and 1099-Rs. And if your plan is participant-directed, you need timely and accurate investment recordkeeping, reconciliation, and participant account allocations. This is not something a payroll provider is set up to handle well, and it shows. From my experience, the larger mutual fund companies that dabble in TPA services do a better job than the payroll providers. And that's not because they're perfect—far from it. It's because they at least understand retirement plans.

The Garbage In, Garbage Out Problem

Here's where things really start to fall apart: compliance testing. After each plan year, your TPA will ask for a detailed census of employee data. That includes dates of hire, termination, birth, hours worked, ownership interests, and company affiliations.

It's not just busywork—it's essential for proper testing and reporting. A good TPA will guide you through this process, explain what's needed, and follow up on inconsistencies. ADP and Paychex? They just hand over the form and expect you to get it right. No questions, no coaching, no accountability. If the data you give them is flawed, the testing results will be flawed. And when that leads to a compliance failure, guess who's responsible? You are.

They'll hide behind a well-drafted contract, play the Sgt. Schultz defense—"I know nothing!"—and leave you to clean up the mess.

You Don't Get a Point Person—You Get a Team (aka a Maze)

When you work with a competent TPA, you typically get one dedicated person who knows your plan inside and out. When you call or email, they answer. With ADP and Paychex, especially for small and mid-sized plans, you don't get that. You get "the team." That means a rotating cast of reps who may or may not have ever touched your plan before you called. The result? Confusion. Repetition. Lost context. And dropped balls. I've worked with clients who had to explain the same issue five different times to five different people. That's not efficiency. That's chaos disguised as a service model.

Plain Vanilla Plans That Cost You More Than You Know

One of the biggest problems with payroll provider TPAs is their approach to plan design: one-size-fits-all. They offer standard 401(k) plans and don't bother discussing advanced plan designs like new comparability or cash balance combinations unless you specifically ask—and even then, they might not support them.

I've seen clients fail discrimination testing year after year without a single proactive recommendation to adopt a safe harbor design. I've seen them refuse to administer plans with brokerage accounts, forcing sponsors to create entirely new plans, merge assets, and file duplicate Form 5500s—all while denying any responsibility for the mess they created. And don't expect them to help if you want to pair your 401(k) with a defined benefit or cash balance plan. They won't do it. You'll need another TPA for that, which means the "one-stop shop" just became a two-stop tangle.

They May Offer Funds, But They Don't Offer Fiduciary Support

ADP and Paychex will happily offer you a menu of mutual funds. But don't be fooled—they're not fiduciaries. They aren't responsible for how those funds perform. They're not liable for choosing funds that kick revenue sharing back to them. And they won't be there to help you justify your fund lineup in the event of a lawsuit or audit. Too many sponsors using payroll provider TPAs don't have a financial advisor. That's a recipe for fiduciary exposure. Payroll TPAs like to refer plans to financial advisors—often in hopes of getting referrals back—but they don't fill the role of an advisor themselves. That leaves you exposed, both financially and legally.

Turnover Is High, Accountability Is Low

There's a reason experienced financial advisors and ERISA attorneys warn against payroll provider TPAs: the turnover. Salespeople are paid to sell, not to stay. They're gone when you need help fixing an issue. The administrative staff churns too, which means no institutional memory, no continuity, and no accountability.

Yes, these companies boast about how many plans they service. But what they don't tell you is how many plans they lose every year. High churn isn't a sign of success—it's a sign that clients are leaving. Good TPAs don't have high turnover because their clients don't want to leave. That's the difference.

Final Thoughts: Choose Expertise, Not Convenience

Look, I understand the appeal. You already use ADP or Paychex for payroll, and they make it sound so easy to add TPA services. But don't confuse ease of setup with quality of service. A 401(k) plan is a complex, highly regulated benefit that requires ongoing expertise and support. If your TPA drops the ball, you're the one the IRS or Department of Labor will fine, not them. Choose a TPA based on their understanding of plan design, compliance, communication, and support. Choose someone who knows how to keep your plan on track and out of trouble. You'll sleep better at night—and you'll save yourself a lot of money, frustration, and exposure in the long run. I've said it before and I'll say it again: ADP and Paychex are great payroll companies. But when it comes to retirement plan administration, they're out of their depth. And if you've already learned that the hard way and need help cleaning up the aftermath, well—you know where to find me.

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