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3(16): To Quote *The Princess Bride*: “I Don’t Think That Means What

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You Think It Means”

BY TYLER WILSON

This article explores 3(16) fiduciary services, what truly are 3(16) services, why viewing them through the lens of “risk mitigation” is misleading, and how employers should properly evaluate and benefit from this growing service model.

Few films blend humor, wisdom, and quotability as effortlessly as *The Princess Bride*. It is a story built on mismatched expectations, misused words, mistaken identities, and assumptions that unravel the moment someone looks more closely. Strangely—or perhaps inevitably—the retirement plan industry’s use of the term “3(16) fiduciary” has followed the same pattern.

In the film, Vizzini famously declares “Inconceivable!” at every turn, and only moments

before being proven wrong. When a plan sponsor first hears about 3(16) fiduciary services, the word often produces an equally automatic reaction: “Finally! Somebody to take all of my responsibilities.” But as Inigo Montoya replies to Vizzini, “You keep using that word. I do not think it means what you think it means.”

We are going to explore why 3(16) fiduciary services are so often misunderstood, what truly are 3(16) services, why viewing them through the lens of “risk mitigation” is misleading, and how employers should properly evaluate—and benefit from—this growing service model. And yes, we will include a healthy dose of *Princess Bride* insight along the way.

“Inconceivable!”—How 3(16) Became a Misunderstood Buzzword

In *The Princess Bride*, the word “inconceivable” becomes Vizzini’s catch-all term for events that are, frankly, quite conceivable. The misuse eventually triggers Inigo’s gentle correction—one of the most quoted lines in the film. Today, “3(16)” occupies a similar position in the retirement plan industry.

The term originally refers to the definition of “plan administrator” under the Employee Retirement Income Security Act of 1974 (ERISA) Section 3(16). In practice, it describes a third-party service provider (TPA) who contractually agrees to assume *certain* administrative and fiduciary responsibilities. Yet in marketing and casual conversations, the term has become shorthand for an all-encompassing solution—something that promises not just help, but deliverance from worry, responsibility, and regulatory exposure.

This disconnect between the statutory role and the marketed idea of that role is where the confusion begins. Many employers hear “3(16)” and assume they are purchasing something akin to a full transfer of fiduciary risk. That assumption is encouraged by service providers eager to position themselves as complete problem solvers, sometimes declaring that they “stand in the shoes of the plan sponsor,” or “take on all plan liability.” While this phrasing is suggestive, it is generally broad and undefined as ERISA simply does not allow total abandonment of fiduciary responsibility.

Yet the myth persists, much like Vizzini’s unwavering belief in the certainty of his own brilliance. And just like Vizzini’s fatal miscalculation in the “battle of wits,” relying on misconception rather than sober evaluation can lead to unfortunate outcomes.

“As You Wish”—Understanding What 3(16) Fiduciaries Actually Do

In *The Princess Bride*, “As you wish” carries a deeper meaning than its surface suggests. It reflects love, loyalty, and service, spoken by Westley as an affirmation of commitment rather than mere compliance. In much the same way, when a 3(16) fiduciary says, “We’ll take it from here,” the phrase reflects a real willingness to shoulder meaningful responsibilities. But, as with Westley’s declaration, the meaning is not always what it seems.

A quality 3(16) fiduciary service can genuinely lighten an employer’s administrative load by taking over many of the routine and sometimes complex tasks that make plan administration a challenge for internal Human Resource (HR) departments: approving distributions, issuing mandatory notices, reviewing domestic relations orders, handling loan authorization, interpreting provisions of the plan document, ensuring that certain operational actions are completed on a timely basis, and managing various compliance workflows. This can free employers from countless hours of routine oversight and reduce the likelihood of errors that occur simply because the internal team is too busy or stretched too thin.

The confusion arises in the leap from “they handle many administrative fiduciary tasks” to “they handle all fiduciary risk.” The former is true; the latter is not. Most employers, unless guided carefully through the service agreement, do not fully understand the distinction.

The role of the 3(16) fiduciary is to assume some administrative responsibilities—not to nullify the employer’s foundational obligations under ERISA, which include selecting and monitoring service providers and ensuring that necessary data is accurate and timely. Those duties remain with the plan sponsor.

Understanding the actual meaning of “As you wish” in this context helps set a realistic and productive expectation for the partnership. It is deep support—not complete replacement.

“Life Is Pain, Highness. Anyone Who Says Differently Is Selling Something.”

Westley’s blunt observation fits surprisingly well into the retirement plan marketplace. When vendors position 3(16) services as a near-magical cure for fiduciary concerns, they unintentionally create an expectation that the employer’s responsibilities vanish with the stroke of a pen. But the Department of Labor (DOL) does not subscribe to fairy tales—only to

statutory duties. ERISA is unequivocal: the responsibility to run the plan prudently, and to monitor those to whom tasks are delegated, cannot be outsourced.

ERISA was designed to ensure accountability at every level. Even if a third party is assuming administrative fiduciary roles, the employer remains the named fiduciary unless the plan structure is fundamentally rewritten. More importantly, no 3(16) fiduciary assumes responsibility for the validity or accuracy of the employer's payroll data. And because payroll data is the source of most operational failures—from missed deferrals to incorrect eligibility determinations—this alone ensures that fiduciary risk cannot be fully relocated.

Does this mean 3(16) services are ineffective? Absolutely not. In fact, 3(16) services may be the single most beneficial enhancement an employer can make to its administrative structure. Thinking of 3(16) services primarily as a vehicle for risk elimination sets expectations that reality cannot satisfy.

In that sense, Westley's analysis stands: anyone positioning 3(16) as a total risk escape hatch is—intentionally or otherwise—"selling something."

The Key Misunderstanding: Risk Isn't Eliminated—It's Re-Shaped

One of the structural flaws in the way the industry talks about 3(16) fiduciaries is the dominant use of "risk reduction" language. This creates the impression that fiduciary outsourcing functions like a transfer of ownership—hand someone the keys, and the property becomes theirs. But fiduciary responsibility doesn't work the same as property ownership transfers. It works like stewardship. You can share roles, you can delegate functions, but you cannot renounce your obligation to oversee what you've delegated.

When a 3(16) fiduciary takes on important administrative tasks, the nature of the employer's risk changes. Some risks genuinely decrease, particularly those related to operational oversights the employer is not equipped to manage efficiently. Other risks shift inward rather than outward; instead of worrying about completing tasks, the employer must focus on ensuring that the 3(16) fiduciary is completing them correctly.

For many employers, especially small and mid-sized ones, the administrative burdens of plan management are exactly where operational failures arise. Offloading those tasks dramatically improves consistency, timeliness, documentation, and compliance. In this sense, it would be a mistake to undersell the value of 3(16)

services as they can substantially de-risk a plan's day-to-day operations; however, they do not eliminate the employer's overarching fiduciary duty. Risk changes shape; it does not disappear. This subtle distinction is essential for plan sponsors to grasp, else the service becomes misunderstood, misaligned, and ultimately disappointing.

"Get Used to Disappointment"—When Contract Terms Don't Match Expectations

In one of the film's most memorable exchanges, Westley informs Inigo Montoya to "get used to disappointment." It's a humorous moment in the movie, but it also neatly captures what happens when a plan sponsor enthusiastically adopts a 3(16) service assuming sweeping protection, only to encounter the actual contract language.

Most 3(16) contracts are precise, and often necessarily so. They identify what the provider is responsible for, what they are not responsible for, and what assumptions are required for them to execute their duties. These assumptions—especially the reliance on employer-provided data—are critical. The provider cannot determine participant eligibility, calculate deferral percentages, identify compensation types, or issue accurate notices without correct data inputs. Because of this dependency, the provider will always disclaim responsibility for data they did not generate.

This is not a flaw in the service model, but a built-in boundary of the partnership. When the employer assumes that the 3(16) arrangement is equivalent to blanket liability protection, these exclusions feel like disappointments rather than logical necessities.

Clarity in communication and clear expectations on the front end of the partnership resolves this tension. When employers understand the scope of the arrangement, the disappointment vanishes, replaced by appreciation for the real value the provider delivers.

The Practical Truth: 3(16) Is an Operational Enhancement, not a Liability Dumping Ground

A more productive way to evaluate 3(16) services is not through the lens of avoiding fiduciary blame, but through improving operational accuracy and consistency. Most plan errors occur in the space between payroll and the recordkeeper—in eligibility determinations, compensation misclassification, deferral timing issues, and failures to apply plan provisions accurately. A strong 3(16) fiduciary can dramatically reduce the frequency of these problems by

implementing disciplined procedures, checking plan operations against document requirements, reviewing transactions for compliance, and ensuring that participant-facing actions align with regulatory obligations. This is the strength of the model. It's not a shield; it's a partnership.

To borrow another line from Inigo: "Let me explain... No, there is too much. Let me sum up." A 3(16) fiduciary doesn't eliminate liability; they reduce the likelihood of operational errors, improve documentation, and bring procedural rigor that the employer might struggle to maintain internally. These disciplines support the employer's fiduciary responsibilities by making prudent administration a practical reality, rather than an aspirational goal.

"Have Fun Storming the Castle!"—Expectations Matter More Than Service Models

In one of the film's great comedic send-offs, Miracle Max and Valerie famously declare, "Have fun storming the castle!" as Westley and his companions pursue their improbable rescue mission. It's the perfect encapsulation of what happens when an employer hires a 3(16) fiduciary with unrealistic expectations. They picture a grand assault on their fiduciary burdens, followed by a triumphant elimination of risk. But ERISA does not reward heroics—only prudence.

In reality, the service succeeds when both parties understand what they are storming and how their roles interlock. The provider handles the castle's tricky administrative corridors; the employer ensures the architectural foundation is sound. When both sides act with clarity, the castle is secured. When one side assumes the other is solving everything, the mission falls apart.

This is why communication, reporting, and documentation matter more than the brand of the service model itself. The strongest 3(16) partnerships involve regular oversight, transparent processes, and a clear division of responsibilities. The weakest involve assumptions, silence, and the belief that the employer has nothing left to do.

Selecting a Provider: "Fezzik, Are There Rocks Ahead?"

The film's dry humor is on full display when Inigo asks Fezzik whether rocks lie ahead, to which Fezzik replies, "If there are, we'll all be dead!" That is not the level of risk assessment employers should employ

when selecting a 3(16) fiduciary. Choosing the right provider requires discernment—understanding who is actually performing the fiduciary work, who is outsourcing it, and who has built the processes necessary to carry out administrative duties with accuracy and consistency.

The key questions are practical rather than legalistic:

- Does the provider have the staff to handle administrative reviews promptly?
- Does the provider maintain structured procedures that align with the plan document?
- Is the provider equipped to identify and resolve operational inconsistencies?
- Is the provider's service model built on genuine fiduciary oversight or a thin administrative facade?
- Does the provider offer clear reporting that allows the employer to fulfill its monitoring obligations?

Evaluating these factors ensures a true partnership, not a fantasy.

When 3(16) Works Well: "This Is True Love. You Think This Happens Every Day?"

3(16) fiduciary services can reasonably be described as the single most beneficial operational enhancement an employer can make to a qualified retirement plan—not because they magically eliminate fiduciary risk, but because they fundamentally change how reliably the plan is administered.

At its core, most plan failures do not arise from bad intentions or defective plan design. They arise from process breakdowns: eligibility errors, delayed deferrals, misapplied compensation definitions, missed notices, inconsistent approvals, and poor documentation. These are operational failures, and they are the primary source of regulatory exposure, participant complaints, and costly correction programs. A properly structured 3(16) fiduciary arrangement directly targets this operational layer.

The most significant benefit is process discipline. A true 3(16) fiduciary doesn't just "help," but imposes structure: standardized workflows, documented approvals, procedural guardrails, and consistent application of plan terms. This structure creates repeatability, and repeatability is the foundation of compliance. When administration is consistent, errors do not just become easier to fix; they become far less likely to occur at all.

Another critical advantage is fiduciary-grade documentation. Many employers think of compliance as doing the right thing. Regulators and courts focus on a different question: Can you prove you did the right thing? 3(16) fiduciaries tend to build strong documentation habits—decision logs, approval trails, procedural checklists, and contemporaneous records. This transforms a plan from being merely “well-run” into being defensible, which is often the difference between manageable audits and expensive disputes.

There is also a material shift in organizational load. Most employers do not have in-house ERISA experts. They rely on HR or payroll staff whose primary expertise lies elsewhere. A 3(16) fiduciary transfers that specialized burden to professionals who live inside that regulatory framework every day. This is not just about reducing mistakes; it is about reallocating corporate bandwidth to its highest and best use. The plan becomes professionally administered without requiring the employer to build that infrastructure internally.

Perhaps most importantly, 3(16) services create accountability by design. Instead of administrative decisions being fragmented across HR, payroll, record-keepers, and advisors, there is a single party contractually obligated to oversee and execute key fiduciary functions. This centralization removes ambiguity about who is responsible for what, which is one of the most common causes of operational failure in retirement plans.

Calling 3(16) services the most beneficial enhancement is therefore not marketing hyperbole. It is a practical observation: no other single change so directly improves process integrity, documentation

quality, participant experience, and operational resiliency all at once. They do not remove the employer’s fiduciary role. They make the employer’s fiduciary role realistically executable. That distinction is what makes the service so valuable.

Conclusion: “You Keep Using That Word...”—A Clearer Way Forward

The phrase “3(16) fiduciary” has become so broadly used—and so loosely defined—that it risks losing meaning. The industry needs a more honest and more precise understanding of what these services are and what they are not. They are a powerful administrative enhancement, not a liability eraser. They are a partner in operational compliance, not a replacement for fiduciary oversight. They reduce the likelihood of errors, but they do not eliminate the employer’s responsibility to select, monitor, and support the plan’s operation.

By removing the illusions and focusing on the practical value, the plan sponsor gains something far more important than a myth—they gain a system of disciplined administration, qualified oversight, improved participant experience, and a meaningful partnership that can reduce operational missteps.

In that light, 3(16) services are not misunderstood magic. They are a practical, grounded, and highly beneficial component of modern plan governance. But only when we stop using the word “3(16)” as if it means something fantastical—and start understanding what it truly represents.

And if the retirement plan industry can get on board, we could all live a little more happily ever after. ■

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