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Plan Sponsor Guide

What Is a Discretionary Trustee?

A practical guide to understanding the role of a discretionary trustee, how delegation works under ERISA, and what plan sponsors should consider.

FIRST HILL TRUST · PLAN SPONSOR GUIDE

Prepared by First Hill Trust

What Is a Discretionary Trustee, and Why Does It Matter?

Do you know who is legally responsible for making fiduciary decisions in your company's retirement plan? In many organizations, that responsibility falls on the employer or members of the plan committee.

Under ERISA, those individuals may be acting as fiduciaries. This means they are responsible for making certain decisions in the best interests of plan participants. Some plan sponsors are comfortable handling these responsibilities internally. Others explore whether certain decisions should be handled by a professional fiduciary.

A discretionary trustee is a fiduciary that is allowed to make certain decisions for a retirement plan. Instead of the employer or plan committee handling every technical or operational issue, specific responsibilities can be delegated to the trustee.

In simple terms, the trustee is not just giving advice. The trustee may actually have the authority to make certain fiduciary decisions for the plan.

Common Situations Where a Discretionary Trustee May Be Involved

A retirement plan may need a fiduciary decision in situations such as the following. Depending on the roles assigned in a plan's governing documents, these determinations may be handled by a discretionary trustee, a plan administrator, or another fiduciary engaged by the plan (in some arrangements, by affiliated entities serving in different roles):

Late employee contribution deposits

If payroll contributions are deposited later than expected, the responsible fiduciary may review the facts and determine whether corrective action or documentation is required. Timely remittance of contributions generally remains the employer's responsibility.

Hardship withdrawal requests

If a participant submits a hardship withdrawal request, the responsible fiduciary may review the documentation and determine whether the request meets the plan's hardship criteria.

Operational plan errors

If the plan discovers that an employee was incorrectly excluded from the plan or contributions were miscalculated, the responsible fiduciary may review the situation and determine how the error should be corrected.

These types of issues require fiduciary judgment and documentation. In these situations, the responsible fiduciary is not simply advising the committee. Depending on the arrangement, it may have the authority to make the fiduciary determination on how the plan should proceed.

Why Do Some Plan Sponsors Explore a Discretionary Trustee?

Many employers find that they, or members of their internal committee, are acting as fiduciaries for the retirement plan.

With that responsibility comes legal duties under ERISA. Because of this, some plan sponsors explore whether certain responsibilities should be handled by a professional fiduciary. A discretionary trustee is a third-party fiduciary that can take on certain decision-making responsibilities for the plan.

Plan sponsors often explore this structure for several practical reasons:

- **Reduced internal fiduciary burden.** Some fiduciary decisions can be handled by the trustee rather than the employer or committee.
- **Experienced fiduciary oversight.** Organizations that specialize in retirement plans deal with these types of issues regularly.
- **More objective decision making.** A professional fiduciary can evaluate plan situations without internal business pressures.
- **Time savings for the employer.** Committees may spend less time handling technical plan issues.
- **Stronger governance structure.** Clearly defined fiduciary roles can make it easier to manage and document plan decisions.

For many companies, the biggest benefit is simply clarity. Everyone understands who is responsible for specific fiduciary decisions.

What Responsibilities Still Stay with the Plan Sponsor?

Even when a discretionary trustee is appointed, the plan sponsor and committee still have important responsibilities. ERISA expects plan sponsors to prudently select and monitor any fiduciaries they appoint.

In practice, this means the committee should periodically review the trustee's services and confirm that the arrangement continues to work well for the plan.

Delegating responsibilities can make governance easier, but the sponsor still maintains oversight of the overall plan structure.

Important reminder

Delegation helps clarify who makes certain decisions. It does not remove the sponsor's responsibility to oversee the plan.

When Might a Plan Explore a Discretionary Trustee?

Not every retirement plan needs a discretionary trustee. However, some committees explore this structure when they want clearer roles or when plan decisions are becoming harder to manage internally.

Plans often start considering this approach when:

- The committee is unsure who should make certain fiduciary decisions
- The plan has become more complex over time
- Operational issues require frequent fiduciary judgment
- The committee would benefit from outside fiduciary expertise

For many sponsors, the goal is not to give up control. The goal is simply to make responsibilities clearer and ensure decisions are handled consistently.

Summary

A discretionary trustee is a fiduciary that is given authority to make certain decisions for the retirement plan. Instead of the committee handling every technical issue, some decisions can be delegated to a trustee who specializes in retirement plan governance.

This structure can help clarify responsibilities, create more consistent decision making, and reduce the operational burden on the committee. However, the plan sponsor still maintains oversight and must monitor the fiduciaries they appoint.

Important Reminder

A discretionary trustee doesn't replace the plan sponsor. It simply helps create clearer decision authority and a more structured fiduciary process.

Quick Evaluation Questions

Plan sponsors sometimes review their governance structure by asking a few simple questions:

01 Do we clearly know who has authority to make key fiduciary decisions?

02 Are those responsibilities documented and consistently followed?

03 Do operational issues regularly require fiduciary judgment?

04 Would specialized fiduciary support improve our governance process?

If these questions are difficult to answer, it may be helpful to review your governance structure and determine whether a discretionary trustee could help clarify responsibilities.

About First Hill Trust

First Hill Trust is a retirement plan solution provider that delivers a comprehensive employee benefits back office for plan sponsors who want clearer accountability, stronger governance, and fewer operational handoffs. Our work is grounded in fiduciary oversight. We focus on helping sponsors understand where responsibility sits, how decisions are executed, and how oversight functions in practice, not just on paper.

We work behind the scenes to support plans that value clarity, consistency, and confidence in how they are managed. If you'd like more information or a high-level review of how your retirement plan is governed today, click the link to schedule a brief review, or contact us (206)-625-1800.



[Schedule a Brief Review](#)

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