



3(38) Discretion for Plan Sponsors

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As defined contribution plans continue to evolve. An increasing number of plan sponsors are now turning to 3(38) investment managers for help with their retirement plans. But before you can decide whether this type of relationship might be right for your organization, it's important to know what it entails.

To better understand the role of a 3(38) investment manager. Consider what it's like to move to a new home. When you move, you have three options:

1. You can choose to do all the work yourself.
2. You can ask friends and family for help.
3. You can hire a moving company to handle the process for you.

If you choose to do everything yourself, you'll be fully responsible for the entire process and the outcome. If you ask friends and family for help, that can handle some of the work and can offer useful suggestions on how to pack and move things, but ultimately, the decision-making and responsibility are still yours.

This is similar to hiring a 3(21) investment advisor, but if you choose to hire a moving company, that company assumes full responsibility for moving everything efficiently and for the care and safe transport of your items. Unloading this burden onto professionals gives you time and energy to focus on all the other elements of your move. This is what it's like to hire a 3(38) investment manager.

A 3(38) investment manager is an advisor, asset manager, or trustee appointed by a retirement plan sponsor to assume responsibility for the investments in its retirement plan. The 3(38) manager can assume responsibility for managing a single fund, or can be responsible for selecting and monitoring all of the investments in the plan menu for single fund 3(38) services. Investment managers will typically handle underlying investment selection, asset allocation, rebalancing, and trade execution.



On the other hand, 3(38) services covering the entire plan menu usually include in-depth investment manager research fund selection, ongoing investment monitoring, fund change management with record keeping partners, and signing paperwork for all investment changes within the plan. This is different than a 3(21) investment advisor because 3(38) managers have the discretionary authority to make the investment changes on their own. They can pack and move all the boxes as they see fit, and they have the expertise necessary to do this effectively and efficiently.

A 3(21) advisor can only give guidance and make recommendations when serving in a 3(38) capacity. The investment manager absorbs the investment fiduciary risk from the plan sponsor for the selection and monitoring of the funds in the menu. Given the increased frequency of litigation in the retirement plan industry, this can be a meaningful delegation of risk for many organizations. Importantly, though, hiring a 3(38) does not absolve plan sponsors of all fiduciary responsibility.

Sponsors still have a fiduciary duty to monitor the firm hired as the 3(38) investment manager to ensure the manager is enacting a thorough and appropriate process. Another potential advantage is saved time for the retirement plan committee. By delegating investment monitoring and decision-making committee members can spend less time making investment decisions and more time focused on other initiatives to improve their plan.

But the decision to engage a 3(38) investment manager may not align with the needs of every sponsor. For instance, sponsors with a robust internal investment team might not require these services, and sponsors that like to have direct control over their investment decisions might find the 3(38) approach less appealing.

For sponsors that do decide to hire a 3(38) manager, due diligence is critical. Research multiple firms and evaluate their fee structures investment, selection, process, and experience serving in a 3(38) capacity.

Think you might need help moving the boxes for your retirement plan? Call CAPTRUST. Our team of institutional advisors can help you determine the best solution for your plan.

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