

The Hidden Risk in Your 401(k): Manual Processes That Cost Real Money

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Most 401(k) plan administration is fully automated, which can lull plan sponsors and fiduciaries into underestimating the compliance risks lurking in the handful of processes that are not. Yet it is precisely these manual touchpoints—one-off data entries, reconciliation steps, and non-routine transactions—that can cause operational errors, that is, failures to administer the plan in accordance with its terms.

Common scenarios requiring manual intervention include:

- Off-cycle or manual paychecks from which deferrals must be withheld;
- New hires missing from the payroll file or terminated employees still coded as active;
- Deferral election changes not accurately reflected in the payroll system;
- Loan repayment amounts manually entered into payroll that diverge from the amortization schedule;
- Transitions between payroll or recordkeeping providers that introduce temporary manual data handling; and
- Contribution amounts that fail to reconcile with the payroll file received by the recordkeeper.

Even in a nearly fully automated environment, each of these situations demands that a human being catch the error, investigate it, correct it (typically with plan counsel's guidance), and document the resolution. Left undiscovered, such errors can lead to late contributions, underfunded or overfunded participant accounts, corrective earnings calculations, and mounting liability the longer they persist. Worse, a single underfunded account can prompt a participant complaint to the Department of Labor—potentially triggering a costly investigation, corrective distributions, fines, and penalties.

To minimize exposure, benefits professionals should consider:

1. **Auditing all manual processes promptly.** Focus on spreadsheet data entry, manual and off-cycle checks (including bonus payments), plan eligibility tracking, and hire/termination date accuracy.
2. **Running quarterly spot checks.** Select a random sample of participants and verify that payroll deductions match deferral elections and loan repayment schedules.
3. **Integrating systems where possible.** Direct payroll-to-recordkeeper data feeds reduce the need for manual reconciliation.

4. **Designating backup personnel.** Ensure coverage for manual tasks during staff absences.
5. **Acting quickly when errors surface.** Engage plan counsel immediately and complete corrections without delay—early action limits both corrective costs and regulatory risk. Some no-cost or low-cost corrections are only available if implemented promptly.

It only takes one overlooked manual step to unravel participant trust, invite regulatory scrutiny, and drain company resources. However, with disciplined oversight, plan fiduciaries can identify and correct any errors and keep the plan running as it should.