Payroll

Deep Dive

Trump Account Benefits Race Makes Payroll Vendors Key Players

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Human resource and payroll service providers, like Alight and ADP, are bracing for a central role administering contributions to Trump Accounts as employers weigh incorporating the child savings vehicle as an employee benefit.

Major vendors are poised to step in as the main providers based on existing infrastructure and relationships with large firms. Companies like Alight Solutions LLC and Automatic Data Processing Inc. will be critical in getting money from employers or employee paychecks into Trump Accounts and verifying the eligibility of those accounts.

While many employers are expected to take a cautious approach to implementing the contributions, several large firms have already signaled they intend to match government seed funding for certain eligible children, putting the onus on service providers to get the necessary infrastructure in place in a short time.

The IRS issued proposed regulations on Aug. 10 outlining how employers can either make contributions to the accounts for eligible employees, or how they can set up pre-tax contributions for employees to make to accounts for their children.

“The rule really doesn’t mention service providers at all. What it does is it talks about employers’ responsibilities,” said Greg Long, vice president of customer success for wealth solutions at Alight. “We know this is the real world, and we know that the employers will in turn want their service provider to do these things.”

Alight works mostly with larger clients, like Siemens Industry Inc. and DirecTV, and at least a dozen of them have already indicated they will participate in Trump Accounts, mainly through a $1,000 match of government seed funding for eligible employees, Long said. Alight anticipates being able to facilitate the match by the start of 2027, he said, with capabilities for pre-tax employee contributions ready later next year.

While the child savings accounts are focused on building wealth, as an employee benefit they will be delivered to employers similar to health benefits given requirements around dependents and the involvement of a cafeteria plan, which allows workers to put pre-tax dollars toward benefits.

“It requires wealth expertise and health capabilities. So it’s really the players that operate in both of those spaces that we think are going to likely be the people doing this,” Long said. “The number of service providers that do this might end up not being very large.”

Providers’ Role

Many companies, particularly smaller businesses, are likely to wait for finalized guidance and take a gradual approach to incorporating any type of new account contribution. But those interested in making employer contributions or setting up pre-tax contributions may rely on the same third-party service providers that work on 401(k)s or health savings accounts.

“Any vendor that’s offering services related to verifying eligibility and enrolling the employee would be a vendor that really a large employer is going to need to have to contract with,” said Christine Keller, a principal at Groom Law Group and former IRS attorney. “Otherwise, I don’t think employers are going to really be able to facilitate the transfer of these funds on their own.”

Financial service providers will be tasked with holding the money put into the accounts. Robinhood Markets Inc. was designated as the sole initial trustee, but officials expect other firms to be added as the program grows.

When an employer creates a Trump Account contribution plan, which is required in proposed regulations, a third-party vendor will create a tool to verify that the account exists and has received a government contribution.

Alight’s clients are requiring it to then certify that an account beneficiary is a dependent of an employee, and is cleared to receive a matching contribution, Long said. Alight will coordinate on sharing data between various parties, including the employer and Bank of New York Mellon Corp. — the designated financial agent for the accounts in charge of building the infrastructure for the accounts.

Employers and service providers raised concerns with Treasury about the difficulty of coordinating verification and financial contributions. The department said on a call two days after the proposed regulations were published that it would build a one-stop-shop portal with a single location for verifying accounts, and a single location for depositing money, Long said.

Employer Decisions

Dan Lewis, vice president of compliance programs and government affairs at ADP, said the company is "closely monitoring" the regulatory guidance around the accounts and "evaluating potential administrative and payroll implications for employers."

"At this stage, employer implementation decisions will depend in part on the final rules and operational requirements that emerge from the regulatory process," Lewis said.

Service providers could help reduce various administrative hurdles for employees by serving as intermediaries, benefits attorneys said.

Payroll providers will play a part in tracking employee contributions, ensuring they are correctly reported on a W-2, and ensuring contributions remain within the limits laid out in the law, said Hillary August, an employee benefits partner at Mayer Brown. Individuals can contribute up to $5,000 annually to a child's account, but only up to $2,500 can come from an employer contribution.

Service providers can also assist employers in complying with the nondiscrimination testing laid out in the proposed regulations, which outlines how companies must ensure the benefit is fairly distributed among highly compensated and low-salaried workers. Many firms will likely rely on similar third-party providers to the ones that assist with 401(k) or health savings account administration, said Mark Stember, a member of Nixon Peabody's employee benefits and executive compensation team.

"That's where I sort of see the third parties coming in is, 'Hey, we already have these existing relationships with large employers because I'm a third-party service provider, I'm doing their 401(k), I'm doing their HSA. Well, why don't I do their Trump Accounts?'" Stember said.