EGPS
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PENSION SERVICES

LONG-TERM PART-TIME EMPLOYEES

Eligibility updates from the SECURE Act and SECURE 2.0

LONG-TERM PART-TIME EMPLOYEES' ELIGIBILITY CHANGE

The SECURE Act included a new rule that affects who must be offered the opportunity to contribute to their employer's 401(k) plan. Beginning in 2024, any employee who worked at least 500 hours in three consecutive years had to be permitted to make 401(k) salary deferral contributions into the plan. SECURE 2.0 reduces the three-year requirement to only need two consecutive years with 500 hours. This shorter requirement begins in 2025. SECURE 2.0 also extends the long-term part-time employee coverage rules to apply to all ERISA-covered 403(b) plans for plan years beginning in 2025.

Prior to 2024, a 401(k) plan could restrict eligibility to those who worked at least 1,000 hours in a 12-month period. Once eligible, long-term part-time employes can be excluded from compliance testing and don't need to be offered employer contributions.

WHAT THIS MEANS FOR PLAN SPONSORS

Additional tracking requirements

The earliest someone will enter a plan based on the SECURE Act provision is January 1, 2024. However, eligibility is determined over a three-year period, **so beginning in 2021 employers must start tracking hours worked by part-time employees for this purpose**. Of course, if the plan eligibility provisions do not currently require more than 500 hours, this isn’t necessary.

No negative testing or cost impact

This provision only affects eligibility to make **401(k) salary deferral contributions** into the plan. As a result, these long-term part-time employees will not negatively impact testing or require additional cost in the form of employer contributions to the plan. This changes once a long-term part-time employee meets the plan’s regular eligibility requirements and is no longer in the plan solely for this reason. At that point, they would become a regular participant.

Vesting changes

Though not required, employers may allow these employees to receive employer contributions. If employer contributions are subject to a vesting schedule, the long-term part-time employees must accrue a year of service for each year during which at least 500 hours are worked. The plan cannot require 1,000 hours of service for this group of employees to accrue a year of vesting service. The reduced requirement only applies if employees have entered the plan solely due to the new rules. If a plan already lets part-time employees participate, normal plan vesting rules apply.

Exclusions still apply

The IRS released proposed regulations that confirm that classes of employees may still be excluded from plan participation, as long as the excluded class is not serving as a proxy for imposing and age or service condition. Therefore, employees can continue to be excluded based on job title, location, hourly or salary pay, or other business classes, assuming the plan is able to satisfy coverage testing. If the plan excludes part-time or seasonal employees who have not worked 1,000 hours in an eligibility computation period, these employees must be permitted to defer if they meet the definition of a long-term part-time employee.

ADDITIONAL GUIDANCE

One big question following the original legislation was how this will impact the participant count for Form 5500 purposes. The DOL issued long-awaited guidance on this in mid-2023. It states that only participants with an account balance (rather than all eligible employees) will count for 5500 purposes beginning with the 2023 plan year reporting. So, although LTPT employees will count once they contribute, they won't be counted just because they are eligible.

HOW WE CAN HELP

This change requires additional employee eligibility tracking for plan sponsors, which can be a very taxing administrative task. We can help. EGPS 3(16) fiduciary services can reduce this workload and relieve plan sponsors of this responsibility. Contact us to learn more.