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## 2024: LONG-TERM PART-TIME EMPLOYEE CHANGES IN 401(K) PLANS

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) contains a provision regarding **Long-Term Part-Time (LTPT)** employees that 401(k) plans need to follow along with the changes reflected in the SECURE Act 2.0. 401(k) plans are required to allow part-time employees, including temporary, seasonal, or other employees who normally do not work 1,000 hours a year, to make 401(k) contributions.

The SECURE Act defines LTPT employees as those who complete three consecutive years in which they work at least 500 hours. Years prior to January 1, 2021 are disregarded for this purpose. Therefore, the earliest a part-time employee will be eligible to participate is January 1, 2024. Employees under the age of 21 can still be excluded.

The SECURE Act 2.0 modified the LTPT rules, reducing the consecutive years to two for plan years beginning after December 31, 2024. Plans initially look at whether an employee meets the 3-year rule, but then will have to switch to the 2-year rule.

LTPT rules only apply to 401(k) plans and 403(b) plans subject to ERISA. If the plan covers LTPT employees:

- The employer is not required to give LTPT employees an employer contribution, although the employer can.
- LTPT participants do not have to be included in the plan's coverage and nondiscrimination testing, although they can be.
- They can also be excluded from top-heavy minimum contribution requirements.
- Safe harbor 401(k) plans won't lose their top-heavy exemption if they exclude LTPT employees from safe harbor contributions.
- LTPT participants will accrue a year of vesting service if they work at least 500 hours in any vesting computation period (versus 1000 hours). Service prior to January 1, 2021 is disregarded for vesting purposes.

Complying with the LTPT rules is going to create complexity for the plan sponsor, recordkeepers, third party administrators and payroll companies. It will also require system changes, tracking multiple eligibility and vesting requirements, and additional work for everyone. This complexity may inadvertently result in operational failures, so it is more important than ever to maintain good historical payroll records.

With proper planning and discussion with the plan's service providers, the employer should be able to stay on top of these changes. Contact us if you have any questions or need help.