LONG TERM PART TIME (LTPT) EMPLOYEES: THE IMPACT TO YOUR PLAN BEGINNING IN 2024

Is this Optional or Mandatory?

This is a mandatory requirement. Historically, plan sponsors could require employees to work at least 1,000 hours during a year to become eligible to enter the plan. As a result, some part time, seasonal or temporary employees would never meet the eligibility criteria. The SECURE Act of 2019 (or SECURE 1.0) expanded coverage to allow those who had worked at least 500 hours in three consecutive years to participate under a plan's salary deferral provision. The 2022 SECURE 2.0 Act has now shortened this wait to two years. These types of employees are considered Long Term Part Time (LTPT).

If you wish to reduce the eligibility requirements for all participants to enter your plan earlier than 1 year with 1,000 hours, you will need to speak to your plan document provider and have them prepare an amendment.

When is this effective?

SECURE 1.0 is mandatory for plan years beginning on or after January 1, 2024, and the SECURE 2.0 modifications are mandatory for plan years beginning on or after January 1, 2025.

2019 Secure 1.0:

Starting with plan years on or after January 1, 2021, Plan Sponsors were required to track employees' hours to satisfy this new rule. Employees who are age 21 and work at least 500 hours of service in 3 consecutive 12-month periods, beginning January 1, 2021 (so plan years beginning in 2021, 2022 & 2023 initially), must be allowed to make salary deferrals to a plan beginning on January 1, 2024. Service prior to 1/1/2021 is disregarded for purposes of eligibility but participants must still satisfy the plan's age requirements.

2022 Secure 2.0:

In 2022, the Secure Act 2.0 was passed and made some changes to the original Secure Act rules before they even went into effect:

- The rule was also changed to reduce the service requirement from 3 consecutive years to two consecutive years with 500 hours beginning after December 31, 2024.
- This rule does not apply to collectively bargained employees or nonresident aliens.
- The rule was expanded to now include 403(b) plans. However, service before January 1, 2023 is disregarded for these plans for purposes of eligibility or vesting.

While the new, two-year rule is now in effect, the older three-year rule still applies. This means employers need to allow employees who meet the older rule to defer in 2024. Under the two-year rule, employees are allowed to start deferring in 2025. This makes it very important to have an accurate tracking method in place for employee hours.

If your plan excludes certain groups, such as a specific job position or geographic location, you can still exclude them as long as the exclusion is not a proxy for an age or service requirement. A plan cannot exclude part-time or seasonal employees for LTPT status and the ability to defer if they are credited with the 500 hours in the required consecutive years. A plan may still apply a part-time or seasonal exclusion for employer contributions.

An Illustration:

For a Calendar Year 401(k) plan - Service prior to 1/1/2021 is disregarded						
	Hours of Service for:					*Assumes participant is age 21*
Name	2021	2022	2023	2024	2025	Enters the plan on:
Edward	550	600	610	550	500	January 1, 2024
Jane	0	650	300	580	450	N/A- must have 2 consecutive years
Mary	400	550	650	300	525	January 1, 2025
John	0	0	750	675	710	January 1, 2025
David	0	0	0	675	710	January 1, 2026

For a Calendar Year ERISA 403(b) Plan - Service prior to 1/1/2023 is disregarded						
	Hours of Service for:					*Assumes participant is age 21*
Name	2021	2022	2023	2024	2025	Enters the plan on:
Kate	550	600	610	550	500	January 1, 2025
Paul	0	650	300	580	450	N/A- must have 2 consecutive years
Thomas	600	400	550	500	525	January 1, 2025
Lynn	0	510	530	450	400	N/A- must have 2 consecutive years
Ellen	0	0	750	675	710	January 1, 2025

Example – under age 21 (date of birth 6/5/2005, hire date 3/1/2024)
Joe turns age 21 in 2026. He does not get credit for 2024 or 2025 hours because he was not yet age 21. In 2026 he did not work 500 hours but has 2 consecutive years in 2027 and 2028.

	Hours of Service for:					
Name	2024	2025	2026	2027	2028	**Enters the plan on:**
Joe	550	600	400	575	600	January 1, 2029

Special Rules for LTPT Employees:

- Participants solely eligible due to the LTPT rules may be excluded from the nondiscrimination and coverage testing.
- Employers are also able to exclude this group of participants from company match, profit sharing, Safe Harbor contributions and Top-Heavy minimums. If as a Plan Sponsor you choose to include this group for any Employer contribution, their vesting is based on a service year of 500 hours, including years prior to 2021. This means that you will need to provide your TPA with historical data for these participants if you have not previously provided this information.
- LTPT employees are considered participants, whether or not they defer, for the purpose of determining whether or not your plan is a large plan (i.e. 100 or more participants) and subject to audit requirements.
- Once a LTPT employee enters the plan, they continue to be eligible even if their hours drop in future years.
- An employee who satisfies the normal eligibility requirements is never considered a LTPT.
- An employee who satisfies normal eligibility requirements after becoming a LTPT is no longer an LTPT employee and is now a regular employee (former LTPT).