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SECURE 2.0 – What You Need to Know
Long-Term Part-Time Employee Rules

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed in 2019, included numerous changes to the rules governing retirement plans with the goal of increasing access and savings for American workers. Building upon the success of SECURE, SECURE 2.0 was introduced to further enhance retirement security. Both acts included provisions addressing long-term part-time (LTPT) employees, recognizing the growing importance of this demographic in retirement planning.

What is a LTPT Employee?

A LTPT employee is one who works more than 500 hours but less than 1000 hours for several consecutive years. Prior to the SECURE Act, many part-time workers who completed less than 1000 hours per year, even while working multiple years for the same employer, were often excluded from employer-sponsored retirement plans. Under the SECURE Act, LTPT employees who have worked at least 500 hours per year for three consecutive years must be given the opportunity to participate in their employer's 401(k) plan. Years worked prior to 2021 were excluded from this three-year determination so the first year a LTPT employee will be eligible to participate under these rules is 2024. The SECURE 2.0 Act reduced the requirement from three consecutive years to two and expanded the rule to include ERISA 403(b) plans in addition to 401(k) plans.

If your plan document contains a minimum age requirement or an excluded class of employees, LTPT employees who are excluded by those provisions do not need to be offered participation. For example, if you have LTPT employees who are under age 21 and your plan has an age 21 requirement, these LTPT employees can still be excluded from participating in your plan until they reach age 21. Or, if your company has several divisions with one of those divisions being excluded from participating in the retirement plan, LTPT employees in the excluded division can still be excluded from participating.

How Does Having LTPT Employees Impact Your Plan?

If you have LTPT employees who are not excluded by some other plan provision, they must be given the opportunity to contribute to the plan from their pay. Two important distinctions will still be made between your LTPT employees and other employees:

- LTPT employees are not required to receive any employer contributions; and
- LTPT employees are excluded from non-discrimination testing.

These are two very important distinctions from the rest of your eligible employee population. Even if your plan makes a matching or non-elective contribution, the LTPT employees can be excluded from those contributions. This is an optional provision so if the company wants to include the LTPT employees in the employer contribution, they can be included.

We anticipate that very few LTPT employees will elect to participate in their employer's retirement plans. Excluding them from non-discrimination testing will prevent their non-participation from having a negative impact on your highly compensated employees.

Conclusion

The LTPT employee rules introduced in the SECURE Act, and further refined in SECURE 2.0, represent significant strides in promoting retirement security for a broader segment of the American workforce. This was accomplished without an added burden on the employer in the form of additional matching or non-elective contributions and without an unintended negative impact through non-discrimination testing.

Should you have any questions about these rules or the impact on your plan, please contact your Benchmark RPS representative at your convenience.