

Long-term Part-time (LTPT) Employees – New Rules

SECURE Act (passed at the end of 2019) and SECURE Act 2.0 (passed at the end of 2022) included a variety of provisions that impact both new and existing retirement plans. One of those provisions created a new classification of employees called long-term part-time (LTPT) employees.

Prior to the passage of these Acts, by way of plan design, employers could exclude part-time employees who worked less than 1,000 hours per year from participation. The new rules will now require employers who sponsor a 401(k) plan to allow LTPT employees the ability to make 401(k) elective deferrals when the following requirements are met:

Under SECURE Act – Effective January 1, 2024

LTPT employees that have attained age 21 and have worked a minimum of 500 hours in three consecutive years (2021, 2022 and 2023) are eligible to contribute 401(k) elective deferrals.

Under SECURE Act 2.0 – Effective January 1, 2025

LTPT employees that have attained age 21 and have worked a minimum of 500 hours in two consecutive years (starting with 2023 and 2024, and ongoing subsequent consecutive two-year periods) are eligible to contribute 401(k) elective deferrals. This supersedes the LTPT provision under SECURE Act.

Plan sponsors may exclude these LTPT employees from employer contributions, such as safe harbor contributions, matching contributions and/or profit-sharing contributions. LTPT employees may also be excluded from annual compliance/general non-discrimination testing and the determination of top-heavy status.

Plan sponsors are encouraged to review their payroll system and human resource processes and adjust them accordingly so that LTPT employees can be identified and tracked to the extent needed to comply with the new rules. With the potential first group of LTPT employees becoming eligible to make elective deferrals on January 1, 2024, LTPT employees' hours need to be reviewed back to 2021 (three consecutive years prior to the January 1, 2024, effective date) to determine if anyone qualifies. If they do qualify, they should be provided with the appropriate enrollment materials prior to their entry into the plan.

If you have any questions on the LTPT employee requirements, the SECURE Act or SECURE Act 2.0 and the associated plan design changes, please contact your Relationship Manager.