

New Rules Coming for Part-Time Employees

The Setting Every Community Up for Retirement Enhancement (SECURE) Act was enacted on December 20, 2019, and is the most significant retirement-related reform legislation to be passed in over a decade. It provides many new opportunities for broadening coverage, increasing savings, and strengthening retirement security. Many of the SECURE Act provisions went into effect on January 1, 2020, but some may not go into effect for a few years.

New Eligibility Provisions for Long-term, Part-time Employees

This newsletter addresses Section 112 of the SECURE Act, which affects long-term, part-time employees (LTPT). Employers often overlook part-time employees when considering their retirement plan benefits and participation. In the past, employers have been able to exclude part-time employees who work less than 1,000 hours per year from participating in the company's retirement plan. Under the SECURE Act, employers must now provide an alternative means of satisfying the service eligibility requirement in a 401(k) plan. The specific details are as follows:

- 401(k) plan sponsors are now required to allow non-union employees who work at least 500 hours during each of three consecutive years to make 401(k) deferrals to the plan.
- Employers are required to cover these LTPT employees, but they can still impose the age 21 condition and standard entry dates for plan participation.
- Plan sponsors can exclude LTPT employees from safe harbor contributions, qualified automatic contribution arrangements (QACA), employer matching contributions, and other employer contributions.
- Employers can exclude LTPT employees from top-heavy requirements, coverage testing and other non-discrimination testing (including ADP/ACP testing).
- If a plan sponsor chooses to make employer contributions for LTPT employees who meet the allocation requirements, it will affect their vesting. If the plan provides employer contributions to these employees, a year of service for vesting is lowered from 1,000 hours during the year

to 500 hours. However, years before January 1, 2021, are not excluded for vesting purposes.

- If an LTPT employee subsequently works 1,000 hours in a 12-month period, the individual will cease to be an LTPT employee and will become a full participant in the plan.

Effective Date for Changes

The above-mentioned changes are effective for plan years beginning after December 31, 2020. Any service prior to January 1, 2021, is disregarded for purposes of eligibility. Therefore, the earliest any of these employees who work limited hours may enter a 401(k) plan is in 2024. The changes do not apply to collectively bargained 401(k) plans, 403(b) plans, or 457 plans.

What to do Now

While it will be a few years before any LTPT employees become eligible, employers will need to act now to make any necessary changes to their internal systems and procedures for tracking service for part-time employees. Starting in 2021, you should retain precise and detailed records of hours worked for all part-time employees so you can accurately provide census information to us and we can assist with monitoring plan eligibility. Be sure to include all LTPT employees on the annual employee census our office sends out for the company to complete. Feel free to contact First American Bank Retirement Plan Services at (847) 392-2999 or RSAdmin@firstambank.com with any questions or concerns you may have.

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