

STEPS TO TAKE TO TRACK PART-TIME EMPLOYEES' HOURS FOR 401(K) PLAN PARTICIPATION

The SECURE Act, which became law in December 2019, seeks to increase employee participation in employer-sponsored retirement plans. Included in the law is a new requirement that employers have to let long-term, part-time employees participate in the company's 401(k) plan.

What are the rules for plan participation?

To be eligible for participation, employees have to have worked 500 hours for three years in a row. However, employees won't be allowed to start participating until 2024. And, while these employees are allowed to make pre-tax contributions to your company's plan, you are not required to provide matching dollars and profit sharing contributions.

How do plan sponsors have to track hours?

Starting next year, you'll have to keep track of employees' hours from 2021 to 2023 to determine employee eligibility. Taking it a step further, to determine when part-time employees are vested, you'll need to consider all their years of service, including before 2021. And, while 2020 doesn't need to count toward plan eligibility, it does need to count toward calculating vesting. Tracking past years could present an administrative challenge for many employers.

Which past years can you disregard tracking?

If your plan allows, you can disregard tracking a part-time employee's hours before age 18, years worked before plan adoption, or years that may fall under specially modified break in service rules. For these workers, a break in service is any year in which that employee didn't work 500 hours.

How could the new law affect plan auditing?

Keep in mind that if you include long-term, part-time workers in your 401(k) plan, it could push your existing plan over the 100 participant threshold.



You might want to consider putting them in a separate plan, so that both of your plans would be under the audit threshold.

Next steps

If you don't already have a process in place for counting part-time employees' hours, you'll need one. You also may need to decide how to deal with potentially small account balances for these part-time employees as well as how to find missing plan participants who may leave these smaller 401(k) balances behind ([Read our article](#) for tips on how to locate participants.). It may be beneficial to review your current eligibility requirements to analyze and address the impact now as this new rule will require you to amend your plan. You have until Dec. 31, 2022 to amend it, and the amendment must be effective retroactively as of the first day of the plan year beginning on or after Jan. 1, 2021.

Sources

["IRS Guidance Clarifies Employers' SECURE Act Obligations,"](#) shrm.org.

["IRS Provides Guidance on Long-term, Part-time Employees in 401\(k\) Plans,"](#) Frost, Brown, Todd, LLC.

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