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WHAT'S TIME GOT TO DO WITH IT?

With January 1st right around the corner, Employee Benefits Services is here to prepare our retirement Plan clients for the handling of Long-Term, Part-Time (LTPT) workers in their Retirement Benefit Plans. It's essential for Employers to understand how this new group of employees will impact their businesses. This article is aimed to provide information regarding the new rules surrounding LTPT employees and prompt action that will help ease the potential long-term effects on Plan administration.

By now you're probably familiar with the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. The Act was designed to ease the imminent retirement savings crisis by making it easier for employees to save for retirement and by making Plans more accessible to more people. One of the most impactful changes contained in this Act expanded eligibility requirements for 401(k) Plans. An Employer may exclude employees who work less than 1,000 hours per year from participating in the Plan. The SECURE Act includes a new eligibility rule allowing a broad range of employees who are restricted by the Plan's eligibility hours requirement the opportunity to participate. This group of employees is referred to as Long-Term, Part-Time (LTPT) employees.

Section 112 of the SECURE Act defines a LTPT worker as an employee who has worked between 500 and 999 hours per year in each of 3 consecutive 12-month periods, and who has attained a minimum age, not to exceed 21, as of the end of that 36-month period. The Plan document will provide specific language regarding how hours are counted over an eligibility computation period. The first eligibility computation period generally begins on the date of hire and ends on the first anniversary date. The Plan document language may then shift the initial computation period to Plan year period.

The clock to determine whether an employee meets the LTPT definition begins on January 1, 2021. Participation for LTPT employees must commence no later than the earlier of 1) the first day of the Plan year beginning after the date on which the employee satisfied the age and service requirements or 2) the date six months after the date on which the individual satisfied those requirements. This means the new rule will affect those who can participate in 2024. Although LTPT workers are now afforded participation, they are not required to receive a matching or other employer contribution. However, an Employer could design the Plan to extend employer contributions to that group of employees. Assuming the Employer does not design the Plan this way, LTPT employees are not counted towards nondiscrimination testing, including ADP/ACP, minimum coverage, and top-heavy.

One notable caveat of the LTPT employee rule relates to vesting. The new LTPT eligibility determination exclusion of the 12-month periods prior to January 1, 2021 does not extend to crediting service for vesting purposes. An Employer who chooses to design their Plan to make employer contributions on behalf of LTPT employees must count all years of service with the employer for vesting. A LTPT employee will be credited with a year of service for vesting for each 12-month period during which the

employee has completed 500 hours of service. This means unless another exception exists (i.e. disregarding service prior to attainment of age 18), a LTPT employee will receive credit for all service, including service prior to January 1, 2021, for vesting purposes.

This new 401(k) coverage rule carries with it a burden for Employers. This month, the American Retirement Association (ARA) submitted a comment letter to the IRS with their recommendations and requested clarification and guidance on several aspects of the new rule. EBS is hopeful that the IRS will implement their suggestions to reduce the burden on Plan sponsors and resolve significant issues relevant to many of our clients. Additional guidance from the IRS will help EBS effectively advise our clients so they can make important decisions regarding Plan design. We will continue to monitor this specific topic to promote sound Plan administration and compliance.

In the meantime, we encourage our clients to take the following actions beginning January 1, 2021:

- Track hours through payroll for all employees.
- Make sure hours for all employees are uploaded to the platform record-keeper if you use an eligibility tracking service.
- Include all employees on your annual census submission to EBS.
- Review your current enrollment procedures and reach out to EBS if you need assistance with determining the most efficient and effective methods of maintaining compliance to prepare for LTPT enrollment in 2024.

This information is intended to update our clients regarding the new rule that relates to LTPT workers. We encourage our clients to reach out to their designated Retirement Plan Professional with questions.

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