

— SECURE 2.0

Improved Coverage for Long-Term, Part-Time Employees

The SECURE 2.0 Act has shortened the time necessary to allow part-time workers access to 401(k) plans.

Historically, 401(k) plan administrators could require employees to work at least 1,000 hours during a year to become eligible to enter the plan. So some “part time” employees would never meet the eligibility criteria. The SECURE Act of 2019 (or SECURE 1.0) expanded coverage to allow those who had worked at least 500 hours in three consecutive years to participate under a plan’s salary deferral provision. SECURE 2.0 has now shortened this wait to two years. Here are the details.



The SECURE Act’s Three-Year Rule

Starting with plan years beginning on or after January 1, 2021, 401(k) plan administrators were required to track employees’ hours to satisfy this new rule: If an employee works 500 or more hours in three consecutive years, the plan administrator must allow the employee to make elective deferrals in the following plan year.

- No employer contributions are required to be given to these participants.
- Special nondiscrimination rules allow plan administrators to test these participants separately from other participants, which may help plans to clear testing hurdles.

2021	2022	2023	2024
500 hours	500 hours	500 hours	Eligible to enter plan

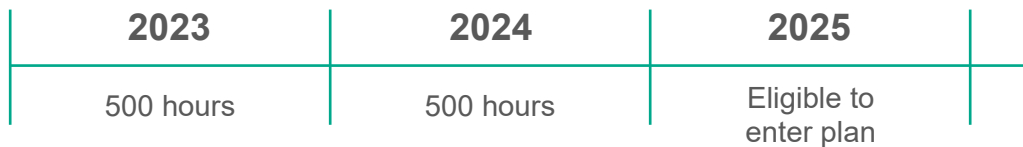
NOTE: This timeline is for illustrative purposes only and is meant to reflect the earliest date on which an employee could enter the plan.



The SECURE 2.0 Act's Two-Year Rule

Effective for 2025 and later plan years, SECURE 2.0 shortens the wait for long-term, part-time employees from three years to two, in addition to changing the rules in other ways.

- ERISA-covered 403(b) plans are now included in this expanded coverage.
- SECURE 2.0 amends the Internal Revenue Code and adds the long-term, part-time provisions to ERISA, making this an enforceable right.
- Pre-2021 service is disregarded for 401(k) plan vesting purposes, effective as if included in SECURE 1.0.



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The Three-Year Rule Still Applies

While the new, two-year rule is now in effect, the older, three-year rule still applies. This means that employers need to allow employees who meet the older rule to defer in 2024. Under the new two-year rule, the first year that long-term, part-time employees may defer is 2025.