

Part-Time Employees and Your Retirement Plan

When it comes to part-time employees and your retirement plan, one word comes to mind – caution! Part-time employees are treated differently under retirement plan rules than from other benefit programs. Part-time employees often have limited or no company-provided health benefits, paid time off or vacation days, unless required by state labor laws and/or company policies. In contrast, part-time employees who work 1,000 hours or more during the year may be eligible for retirement benefits.

Eligibility under Retirement Plans

Generally a retirement plan must cover all eligible employees who have met a service requirement. You can require an employee to perform up to one year of service before becoming eligible for plan participation. A “year of service” is a 12-month period during which an employee works at least 1,000 hours (or less, if you elect).

Exclusion from Participation?

Your plan can exclude a class of employees (such as salaried employees or the sales division) from participation in the plan. However, no class exclusion can indirectly impose an impermissible service condition on plan eligibility. This means you *cannot* exclude part-time employees as a class based on their work schedule.

Part-Time Employees as Plan Participants

While part-time employees regularly scheduled to work less than 20 hours a week may never satisfy the “year of service” eligibility requirement, caution is advised. Various events can cause part-time employees to meet the plan’s service requirement and become participants under the plan.

- Pay attention to all hours credited. Credit not only hours worked, but also paid hours due to vacation, illness and holidays. Employees who usually work less than 20 hour a week can easily exceed 1,000 hours due to overtime or work on a special project. It is especially important to monitor hours in a 401(k) plan since employees have an immediate right to defer once they become participants.
- Identify life changes that affect hours worked. Due to a new stage of life, such as children beginning school, an employee who previously worked less than 1,000 hours during a year may become full time and eligible for plan participation. The reverse may be true as well; a full time employee may choose to reduce the number of hours worked. However, even if a participant’s hours fall below 1,000 in a given year, the employee is still considered to be a plan participant.
- Some plans do not require a full 12 months of employment or a minimum number of hours. For example, a 401(k) plan may have an eligibility requirement of 3 months of service, in which case part-time employees will become participants in the plan regardless of hours worked.
- What is the impact of part-time employees on your plan? Plan costs may increase due to additional administration fees and company contributions allocated on their behalf. Plan testing may become more difficult to pass if part-time employees do not share in the company contributions under the terms of the plan.

If you have part-time employees, please contact us to learn how we can help you effectively design and administer your plan’s eligibility and contribution provisions with these employees in mind.

Your Partner for Success >>>

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