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Long-Term Part-Time Employees in 401(k) Plans

Prior to enactment of the SECURE Act, 401(k) plans were generally permitted to require employees to complete a year of service before becoming eligible to make salary deferrals to the 401(k) plan. The plan could define a year of service as requiring the employee to complete up to 1,000 hours during a 12-month period.

The SECURE Act made changes to when an employee is eligible to make deferrals to a 401(k) plan. A 401(k) plan generally cannot, as a condition of making deferrals to the 401(k) plan, require an employee to complete a period of service that is longer than:

- completion of a year of service; or
- completion of three consecutive 12-month periods during each of which the employee is credited with at least 500 hours of service.

Employees who have not completed a year of service but have three consecutive 12-month periods with at least 500 hours of service in each period are commonly called “long-term part-time employees.” The 3-consecutive year condition is reduced to 2-consecutive years beginning in 2025.

This new requirement generally applies to all 401(k) plans and all employees, other than certain employees covered by a collective bargaining agreement. For a 401(k) plan that uses the calendar year as its plan year, this change could require enrollment of long-term part-time employees as of January 1, 2024.

401(k) plan sponsors should review their employee census information to ensure they’ve identified all long-term part-time employees and provided them an opportunity to defer compensation to the 401(k) plan. If any employees were not timely given the opportunity to make an elective deferral, the error may be corrected in accordance with the Employee Plans Compliance Resolution System.

Action items: Avoid long-term part-time errors

- Review the census data for all employees who are not eligible to participate in the 401(k) plan because they have not completed a year of service under the terms of the plan.
- Identify whether any of those employees are age 21 and have completed more than 500 hours of service in three consecutive 12-month periods since 2021.
 - Note that if the employee is in a class of employees that is not based on service and is excluded under the plan, the employee is not required to be included in the plan as a long-term part-time employee until they are in an eligible class.
 - Excluding “part-time” and “seasonal” employees generally are service-based conditions that are impermissible exclusions. Those employees must be included if they meet the eligibility requirements to be a long-term part-time employee.
- Ensure each long-term part-time employee has been timely offered the ability to make salary deferrals to the plan.

Find answers to many of your retirement plan or IRA questions at [IRS.gov/Retirement](#).