



KB PENSION SERVICES ALERT!

June 2008 * No: 08-02

Part-Time employees: to enroll or not to enroll, that is the question!

You hire someone to work for your company on a part-time basis. In your firm, part-time employees do not receive any benefits such as life or health insurance, or other benefits full-time employees receive. So since they are entitled to no benefits, they cannot participate in your company's retirement plan, right?

The answer might not be as simple as you think. Under ERISA regulations, to be a participant in a qualified retirement plan a person only has to satisfy the plan's eligibility requirements, which cannot exceed 1,000 hours of service in a plan year. That works out to just under 20 hours per week! And if your plan has no hours of service requirement, then anyone who works the required service period becomes an eligible participant as of the plan's next entry date after satisfying eligibility...whether you consider them part-time or not. Employees cannot be excluded from participation in your retirement plan solely on the basis of being part-time.

So what if you want to specifically exclude "part-time" employees from participation in your plan document? You have that ability, however any person who works over 1,000 hours in a plan year cannot be considered a part of this excluded class anyway, so you would still have to let those people participate in your plan if they so desire. Excluded classes of employees cannot be based on any hours of service requirement.

This also applies to any employer contributions to the plan. Employer plan benefits, such as a matching contribution of employee elective deferrals, or a profit sharing contribution, are given to any eligible employee satisfying the written requirements for those contributions. Again, you cannot withhold an allocation of an employer contribution to an employee who works 1,000 hours or more, unless your plan has a last-day of service requirement and the person is no longer employed on the last day of the plan year. Vesting of employer contributions to the plan are also granted for any year of service in which 1,000 hours or more are worked.

So remember, as you near the next entry date for your plan for newly eligible employees, you must consider any employee who has met the plan's eligibility requirements without regard to any part-time classification and provide them with a plan enrollment form. They can decline participation if they so desire, but you cannot withhold participation from them on the basis of their employment as a part-time person. All employees of the company who worked for you at anytime during the plan year also have to be included in your year-end census report, no matter if they are full-time, part-time, or anywhere in between. Even if you do have an excluded class of employees, you still have to report them to us as such so proper testing of the plan can be performed to ensure it does not fail the necessary coverage testing under Section 410(b) of the ERISA regulations.

If you have any questions regarding this and how it may affect your individual plan, contact our office and speak with your plan representative.

KB PENSION SERVICES, INC.
1990 Main Street, Suite 801
Sarasota, FL 34236
Telephone: (941) 953-7452
John Cotterman, QPA, QKA