



Long-term part-time employee provision

SECURE 1.0 Act and SECURE 2.0 Act

Required beginning January 1, 2024

Overview

The long-term part-time (LTPT) employee provision of the SECURE 2.0 Act (SECURE 2.0) helps participants save for their future by broadening access to retirement systems for part-time employees. Vanguard is proud to support this provision and believes expanded coverage for part-time employees will lead to better outcomes throughout the retirement journey. After careful analysis of the provision, we've developed an implementation strategy to ensure that plan sponsors are prepared for the provision to take effect. Our solution is designed to meet the requirements of the LTPT employee provision while providing the best possible experience for plan sponsors and participants throughout the process.

The LTPT employee provision was originally introduced through the SECURE Act of 2019 (SECURE 1.0), requiring part-time employees who worked at least 500 hours in three consecutive years to become eligible to make elective deferrals, effective January 1, 2024. SECURE 2.0 reduces the period from three years to two years, beginning January 1, 2025. Additionally, SECURE 2.0 builds on the original provision by extending LTPT employee coverage to 403(b) plans and updating vesting requirements.

Key takeaways

- All LTPT employees will receive a January 1 eligibility date.
- Plans that exclude, or wish to exclude, part-time employees should consult with their ERISA counsel to determine if their plans will require amendments to remove or alter their part-time employee exclusions.
- Plan sponsors are not required to offer an employer contribution to LTPT participants but are highly encouraged to do so. Offering an employer match has numerous benefits, including increased employee engagement and tax advantages for employers. Additionally, excluding employer contributions to LTPT employees may result in administrative burden and costs to the plan in the form of payroll file updates.
- Employers may elect to exclude LTPT employees from nondiscrimination testing. This may include ADP/ACP, 410(b), and top-heavy testing.
- ERISA-governed 403(b) plans that allow salary deferrals are also included in the provision effective January 1, 2025.

Long-term part-time employee eligibility

SECURE 1.0 created a new mandate that allows LTPT employees to become eligible to make elective deferrals to their company's 401(k) plan, provided those employees meet specific eligibility requirements. SECURE 2.0 expands the LTPT provision to include 403(b) plans and reduces the number of consecutive years of service required to qualify as an LTPT employee.

Although the eligibility requirements outlined in SECURE 2.0 will eventually override those established in SECURE 1.0, the two versions of the LTPT provision have different effective dates. Beginning on January 1, 2024, the LTPT provision became effective using the SECURE 1.0 definition of an LTPT employee. On January 1, 2025, the eligibility requirements will shift to those set forth in SECURE 2.0.

SECURE 1.0 eligibility requirements	SECURE 2.0 eligibility requirements
<ul style="list-style-type: none">• Effective as of January 1, 2024.• An LTPT worker is defined as a part-time employee who works at least 500 hours in each of three consecutive 12-month periods and is 21 years of age or older.• Vesting eligibility begins with service completed beginning January 1, 2021.• Applies to 401(k) plans only.	<ul style="list-style-type: none">• Effective as of January 1, 2025.• An LTPT worker is defined as a part-time employee who works at least 500 hours in each of two consecutive 12-month periods and is 21 years of age or older.• Vesting eligibility begins with service completed beginning January 1, 2021, for 401(k) plans and beginning January 1, 2023, for 403(b) plans.• Applies to 401(k) and 403(b) plans.

Vanguard's solution

Vanguard has prepared an implementation strategy for the LTPT employee provision that can be customized to fit your plan's unique needs. This focused approach is based on the method your plan currently uses to track full-time employee hours for the purposes of elective deferrals and vesting. The LTPT employee provision will have the most substantial impact on plans that track employee eligibility using actual hours as opposed to using immediate or elapsed time. Whether your plan calculates employee eligibility independently or entrusts Vanguard with eligibility determinations, you can expect support from us every step of the way as the LTPT provision becomes the new norm in the 401(k) and 403(b) space.

A high-level overview of the eligibility process is available below. We recognize that while there are some universal practices in place to track employee eligibility, many plans have additional factors to consider, such as collective bargaining agreements and specific exclusions of part-time employees. As we prepare for implementation of the LTPT provision, Vanguard will note any unique characteristics at the plan level and tailor our solution to fit your needs. Your client success executive will work with you to ensure that your plan is set up for success when the LTPT provision takes effect.

Plan tracks eligibility through actual hours

Vanguard calculates eligibility

- Vanguard will review submitted hours annually to identify participants who have met LTPT eligibility requirements. When a participant becomes LTPT eligible, they will automatically receive a notification that includes their scheduled plan entry date.
- An internal identification report will be used to track LTPT employees currently eligible to enroll in the plan, with updated editions available in My Plan Manager™ around February 15 of each year.
- Vesting: Vanguard will apply one year of vesting credit for each 12-month period in which an LTPT employee has completed at least 500 hours of service, beginning on January 1, 2021, or beginning on January 1, 2023, for 403(b) plans. Plan sponsors should send vesting hours for part-time employees in the same way they currently do for full-time employees to ensure that vesting is calculated accurately.

Plan sponsor calculates eligibility

- Plan sponsors calculating eligibility independently can prepare for the LTPT provision by identifying employees who qualify as LTPT employees. Vanguard has created a template and instructions to assist in this process, which will be shared in the coming months. In addition to the template, LTPT employee records should also be sent to Vanguard. This will ensure that employees are able to enroll when the plan identifies them as LTPT eligible.
- Plan sponsors are encouraged to work with their payroll provider to determine how LTPT employees will be identified and confirm if any updates to their payroll file will be necessary.
- LTPT employees will receive a plan entry date of January 1 of the year following the employee's achievement of LTPT eligibility. Plan sponsors should return their completed template to Vanguard prior to the entry date to avoid delays in participant enrollment.
- Vesting: Plan sponsors will need to confirm how many vesting years of service an employee should be granted upon meeting LTPT eligibility using the identification template. Plan sponsors should also send vesting hours for part-time employees in the same way they currently do for full-time employees to ensure that vesting is calculated accurately.

Plan tracks eligibility through immediate or elapsed time

- Based on our analysis, plans tracking participant eligibility using actual hours will be most impacted by the provision. Plans tracking eligibility through immediate or elapsed time are not expected to experience any changes because of the provision.
- If your plan specifically excludes part-time employees, please consult with your ERISA counsel to determine how the LTPT provision may apply to your plan.
- Any changes to eligibility requirements that you may wish to implement in response to this legislation can be completed through a plan amendment under the guidance of your ERISA counsel.

Our approach by plan sponsor structure

Implementing the SECURE 2.0 Act's long-term part-time employee eligibility provision

Vanguard's approach is centered around the following considerations:

- Under SECURE 1.0,¹ effective January 1, 2024, a long-term part-time (LTPT) employee is defined as any employee who has completed at least three consecutive 12-month periods in which they worked at least 500 hours in each period and were at least 21 years old, beginning with service completed after December 31, 2020.
- SECURE 2.0 reduces the period from three years to two years, beginning January 1, 2025.

Scenario 1: Vanguard calculates your plan's eligibility using an actual hours method

Our solution: We have expanded our existing processes to systematically identify LTPT-eligible employees based on the hours submitted by your plan.

When a participant becomes LTPT eligible, they will be notified automatically, receiving a scheduled plan entry date of January 1. An identification report will be used to track LTPT employees currently eligible to enroll in the plan, with updated editions available in My Plan Manager™ around February 15 of each year.

LTPT employee hours will be monitored to capture any potential updates from part-time to full-time eligibility as needed. The participant's status will change in the plan year following the year they met the full-time eligibility requirements. Vanguard will inform you of any transitions from part-time to full-time participant eligibility to ensure that any required updates, such as offering employer contributions, can be completed in a timely manner.

Key decisions:

- As a plan sponsor, you have the option of offering employer matching and nonelective contributions for LTPT participants. We encourage you to offer an employer contribution for LTPT employees in the same manner as full-time employees.
- If you have questions about how your plan's payroll file may be impacted by the

introduction of LTPT employees, contact your payroll provider for additional information.

- If your plan currently excludes part-time employees, please consult with your ERISA counsel to determine how the LTPT provision may apply to your plan.

Data considerations:

- Please ensure that you send Vanguard complete records for your part-time employee hours. Without historical hours on file starting from January 1, 2021, we will be unable to complete the eligibility determination, and you will need to identify this population manually.
- If your plan determines vesting using an actual hours method, please ensure that you send vesting hours for your part-time employees so that vesting can be accurately calculated. One year of vesting credit will be applied for each 12-month period in which an LTPT employee has completed at least 500 hours of service, beginning on January 1, 2021, or beginning on January 1, 2023, for 403(b) plans.

Notify your client success executive if:

- You believe we are missing historical hours or other demographic data for your part-time employees.
- You believe any segment of part-time employees within your plan should be excluded from this systematic calculation.
- You would like more information on how SECURE 2.0's LTPT provision will affect your plan.

¹Although SECURE 1.0 does not apply to ERISA 403(b) plans, these plans are subject to the LTPT rules of SECURE 2.0.

Scenario 2: Vanguard calculates your plan's eligibility using elapsed time or your plan has immediate eligibility

- Our solution: Vanguard has evaluated the impact of the LTPT provision by focusing on the method your plan currently uses to track full-time employee hours for the purposes of elective deferrals and vesting. Based on our analysis, your plan is not likely to be impacted by the LTPT employee eligibility provision

Actions to consider before the provision of SECURE 2.0 becomes effective on January 1, 2025:

Consult with your ERISA counsel and notify your client success executive if:

- Any segments of your part-time employee workforce track employee eligibility using actual hours or if your plan currently excludes part-time employees.
- You would like to make any changes to eligibility requirements in response to this legislation through a plan amendment.

Scenario 3: Your plan calculates eligibility independently using an actual hours method

To prepare for the LTPT provision of SECURE 2.0, you will need to track and identify employees who have met the LTPT work eligibility requirements as of January 1, 2024. Vanguard has created a template and instructions to guide you through this process. When a participant becomes LTPT eligible, they will receive a plan entry date of January 1 of the year following their completion of LTPT eligibility requirements.

Key decisions:

- You have the option of offering employer matching and nonelective contributions for LTPT participants. We encourage you to offer an employer contribution for LTPT employees in the same manner as full-time employees.
- If you have questions about how your plan's payroll file may be impacted by the introduction of LTPT employees, please contact your payroll provider.
- If your plan currently excludes part-time employees, please consult with your ERISA counsel to determine how the LTPT provision may apply to your plan.
- If you believe any segment of your part-time employee workforce should be excluded from LTPT eligibility determinations, contact your client success executive. If the segment should be excluded, please do not include the employees on the template.

Data considerations:

- A template and instructions will be shared with you via My Plan Manager™ secure messaging in the coming months. In addition to the template, please ensure that LTPT employee records are being sent to Vanguard using your standard file process so that the employees can enroll once you identify them as eligible.
- Vanguard will send you an identification template prior to January 1 of each year to record the plan's latest LTPT-eligible participants. You will need to confirm how many vesting years of service an employee should be granted upon meeting LTPT eligibility using this template.
- If your plan determines vesting by hours, please ensure that you send vesting hours for your part-time employees. One year of vesting credit will be applied for each 12-month period in which an LTPT employee has completed at least 500 hours of service, beginning on January 1, 2021, or beginning on January 1, 2023, for 403(b) plans.

Scenario 4: Your plan calculates eligibility independently using elapsed time or the plan has immediate eligibility

Our solution: Vanguard has evaluated the impact of the LTPT provision by focusing on the method your plan currently uses to track full-time employee hours for the purposes of elective deferrals and vesting. Based on our analysis, your plan is not likely to be impacted by the LTPT employee eligibility provision.

Actions to consider before the provision of SECURE 2.0 becomes effective on January 1, 2025:

Consult with your ERISA counsel and notify your client success executive if:

- Any segments of your part-time employee workforce track employee eligibility using actual hours or if your plan currently excludes part-time employees.
- You would like to make any changes to eligibility requirements in response to this legislation through a plan amendment.

Scenario 5: Your plan uses a custom structure to calculate employee eligibility

In recognition of your plan's custom features, including manual processes currently in place, the impact of the LTPT provision would be best understood through a phone or video conference conversation. Your client success executive will contact you with more information on implementation within your plan.

Plans tracking participant eligibility using actual hours will be most impacted by the provision, while those using elapsed time or who have immediate eligibility are unlikely to require updates. Below you can find a few general LTPT participant considerations to help guide the discussion with your client success executive.

Key decisions:

- As a plan sponsor, you have the option of offering employer matching and nonelective contributions for LTPT participants. We encourage you to offer an employer contribution for LTPT employees in the same manner as full-time employees.
- If you have questions about how your plan's payroll file may be impacted by the introduction of LTPT employees, contact your payroll provider for additional information.
- If your plan currently excludes part-time employees, please consult with your ERISA counsel to determine how the LTPT provision may apply to your plan.

Data considerations:

- Be prepared to send Vanguard complete records for your part-time employee hours.
- Employees will be entered into the plan on January 1 of the year following their fulfillment of LTPT eligibility requirements.
- If your plan determines vesting using an actual hours method, please ensure that you send vesting hours for your part-time employees so that vesting can be accurately calculated. One year of vesting credit will be applied for each 12-month period in which an LTPT employee has completed at least 500 hours of service, beginning on January 1, 2021, or beginning on January 1, 2023, for 403(b) plans.
- If a participant becomes eligible to transition from part-time to full-time, their plan status will change in the year following their achievement of full-time eligibility.

Next steps timeline

Vanguard will send plan-specific details on the LTPT provision's implementation strategy to plan sponsors based on eligibility, matching, and vesting rules within the plan.

Q3 2023

Plan sponsor action	Vanguard action	Payroll provider action
Notify your plan's client success executive of any special considerations for part-time employees within your organization, such as segments of union employees or other exclusions. Determine if your plan is sending historical employee hours to Vanguard and be prepared to provide this data if it is not on file already. Depending on the exclusions specific to your plan, additional data may be required.	Your client success executive will reach out to facilitate a discussion on the LTPT provision to ensure that your plan is on track for implementation in 2024.	If you are choosing not to offer employer contributions to LTPT participants, updates within the payroll system may be required.

Q4 2023

Plan sponsor action	Vanguard action	Payroll provider action
If your plan calculates eligibility independently using actual hours and does not currently have historical employee hour data on file, please submit this information by late Q4.	Vanguard will send a tracking template to plan sponsors that calculate eligibility independently using actual hours and to plan sponsors that do not currently have historical data on file to help identify LTPT-eligible employees.	Continue to work with plan sponsors for any special considerations related to LTPT employee exclusions.

2024 and beyond

Plan sponsor action	Vanguard action	Payroll provider action
Plan sponsors calculating eligibility independently will receive an identification template and instructions prior to the annual eligibility computation period of January 1 to record their LTPT-eligible employees each year.	Vanguard will prepare our internal systems for the shift from SECURE 1.0 eligibility requirements effective on January 1, 2024, to the requirements outlined in SECURE 2.0, effective on January 1, 2025.	Continue to work with plan sponsors for any special considerations related to LTPT employee exclusions.

Frequently asked questions

1. Which plans are not impacted by the LTPT provision?

Plans that fall into any of the below categories **will not be** impacted by LTPT:

- Plans with only employer contributions (i.e., profit-sharing plans) and no employee deferrals.
- Plans with only after-tax contributions and no employee deferrals.
- Plans that contain only employees covered under a collective bargaining agreement (union).
- Solely qualified Puerto Rico plans.

2. How should plans that currently (or wish to) exclude part-time employees from contribution and vesting eligibility prepare for this provision?

Clients that exclude, or wish to exclude, part-time employees may want to consult with their ERISA counsel to determine how their plans will be impacted by the LTPT provision.

3. How does the enrollment process work for LTPT employees?

The enrollment experience for LTPT employees will function in the same manner as it does for full-time employees. Automatic enrollment programs will apply the same rules for LTPT employees as full-time employees who become eligible.

4. What does the transition process look like when an LTPT employee becomes a full-time employee?

If the plan has an hours requirement, hours submitted should continue to be monitored after an employee has met the LTPT eligibility

requirements to assess if the participant has met full-time eligibility requirements to become a full-time eligible participant. If the participant meets this threshold, they are considered a full-time participant in the plan year beginning after the year they met the full-time eligibility requirements.

If Vanguard calculates eligibility, Vanguard will notify the plan sponsor of the change to full-time so that any required changes are made in a timely manner. If the plan sponsor calculates eligibility independently and an LTPT participant meets the requirements to become full-time eligible, the plan sponsor is responsible for notifying Vanguard within that year. The participant's status will be updated accordingly following the completion of the current LTPT eligibility computation period (i.e., calendar year).

5. How will the plan amendment process work for the LTPT provision?

For clients using Vanguard's preapproved document, Vanguard will be providing the amendment. More information on the preapproved document process will be provided later. Plan sponsors using individually designed plan documents are responsible for drafting their own amendments. Plan amendments for all SECURE 1.0 and SECURE 2.0 provisions are not due until the end of the 2025 plan year.

6. Will LTPT employees have access to the same advice offerings as full-time employees?

LTPT participants may have access to Advice powered by Edelman Financial Engines and Advice from Vanguard. For details about how advice will impact your specific plan, please reach out to your client success executive.

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