

THE BENEFIT BULLETIN

FAST FACTS ABOUT RETIREMENT PLANS

The following article contains general plan facts and is intended for informational purposes only. To ensure that your plan contains specific provisions outlined in this and future articles, please contact your third party administrator or plan ERISA attorney.

Rehired Employees

When you “rehire” an employee who has previously worked for your company, special consideration must be made to that employee in regards to your qualified retirement plan. You must pay close attention to when that rehired employee is eligible to enter or “re-enter” your plan.

To determine the rehired employee’s entry date into the plan, you must first determine if your plan imposes a “break in service” rule for participation. (There are 3 types of break in service rules that affect participation - the one year holdout rule, the rule of parity, and the two year eligibility break in service rule.) Break in Service rules are not common in most retirement plans, so the illustrations below are for plans without break in service rules. Below are different scenarios of rehired employees and the timing of their plan entry.

1. The employee had previously been a participant in the plan. This employee will be eligible for the plan **immediately** on the day he returns to work (regardless of the plan’s normal entry date system). If you have a 401(k) Plan, you must allow him to enroll and start making 401(k) deferrals on his first payroll.
2. The employee had previously met the eligibility requirements, but terminated prior to his/her entry date. This employee will enter the plan on the later of a) the date he would have entered the plan had he not terminated or b) the date of reemployment. For example, your plan has eligibility requirements of age 21 and 1 year of service and entry dates of January 1 and July 1. Danny was employed on 04/10/2007 and terminated employment on 05/25/2008. At the time he terminated he had worked his 1 year of service and was age 21. Had he remained an employee he would have entered the plan on July 1, 2008. If he is rehired on June 26, 2008 he will still enter the plan July 1, 2008. If he is not rehired until September 10, 2008, he would be immediately eligible for the plan the date he returns to work.
3. The employee did not meet the eligibility requirements prior to terminating. This employee will have to meet the plan’s eligibility requirements before he can enter the plan. He will enter the plan on the plan’s normal entry date system after completion of the eligibility requirements.

There are also break in service rules for vesting that may change vesting rights of a rehired employee. Please contact your third party administrator to help you determine any affects on vesting or if you would like verification of the entry date of a rehired employee.

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