

Retirement Planning Opportunities

Retirement Plans and Leased Employees

Leased Employees and Retirement Plans

Some of your clients may utilize employees hired from another company as part of their own workforce. Your clients may feel that they do not need to include these leased employees in any qualified retirement plans they set up for their own companies. However, in many cases the leased employees will have to be included in the client's retirement plans.

When Must Leased Employees Be Included in the Coverage Tests for Your Client's Retirement Plan?

Your client must include the leased employees in the coverage and participation tests for their retirement plans if:

- 1) These leased employees have worked full-time for a year, and
- 2) Their services are performed under your client's primary direction.

What If the Leasing Company Has Its Own Retirement Plan?

If the leasing company has a plan

for its employees, then your client may be able to reduce the contribution or benefits required for the leased employees in his or her plan by the benefits or contributions provided for them in the leasing company's plan.

This assumes, of course, that the benefits or contributions in the leasing company's plan are primarily attributable to services performed for your client's company.

Special Rules if Less Than 20% of Employees Are Leased Employees

Additionally, the leased employees will not be treated as your client's employees if:

- 1) The leased employees do not make up over 20% of your client's non highly compensated employee workforce, and
- 2) The leasing company provides a special "Safe Harbor" retirement plan for the leased employees.

In these circumstances, the leased employees need not be included in any coverage or participation tests for your client's retirement plan.

Safe Harbor Plan for Leasing Company

The leasing company's special retirement plan is known as a **Safe Harbor Plan**. It is a money purchase plan with:

- 1) Immediate participation,
- 2) Full & immediate vesting, and
- 3) A contribution rate of 10% of salary each year for each Individual.

Immediate participation need not be required for:

- 1) Employees who work primarily for the leasing company and
- 2) Employees who have earned less than \$1,000 from the leasing company in each of the past four years.

Where Can You Get More Information on Leased Employees?

Don't hesitate to contact me if you would like to discuss any situations with your client's leased employees.

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