USI CONSULTING GROUP

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Benefits in Focus
PLAN SPONSOR NEWSLETTER

THE CARES ACT | WHAT IT MEANS FOR RETIREMENT PLANS

I. SUMMARY OF RETIREMENT RELATED PROVISIONS UNDER THE CARES ACT

The CARES Act (Coronavirus Aid Relief and Economic Security Act) was enacted on Friday, March 27th. The CARES Act is a $2 trillion stimulus package intended to help the economy as it suffers from the coronavirus pandemic. The provisions of the CARES Act impact many sectors of the U.S. economy by providing relief to employers and businesses, providing relief to individuals by expanding unemployment benefits, and making direct payments to most Americans. In addition, the CARES Act includes several retirement plan provisions, which allow plan participants who are experiencing COVID-19 related consequences to access their defined contribution plans' funds through certain distributions and loans that are not ordinarily permitted. The CARES Act also offers two major changes to defined benefit plan funding rules applicable to single employer defined benefit plans. Below is a summary of the key retirement plan provisions under the CARES Act.

CARES Act Retirement Related Provisions for *Defined Contribution* Plans:

Coronavirus Related Distributions - The CARES Act permits "qualified individuals" to withdraw up to $100,000 from a defined contribution retirement plan or IRA for coronavirus related hardships between January 1, 2020 and December 31, 2020. Qualified individuals are those who experience one or more of the following circumstances:

1. Diagnosed with COVID-19;
2. Spouse or dependent is diagnosed with COVID-19; or
3. Adverse financial consequences as a result of COVID-19, due to quarantine, furlough, layoff, reduction in work hours, inability to work due to lack of child care, closing or reduction of hours of a business owned or operated by the individual due to the coronavirus, or any other factors as determined by the Treasury Secretary.

For this purpose, employers may rely on an employee's certification that the employee satisfies these conditions in requesting the coronavirus related distribution.

The CARES Act waives the 10% early distribution penalty that normally applies to similar hardship distributions. The CARES Act further waives mandatory income tax withholding from such distributions. Participants have the option to repay these distributions back to the plan within three years of the distribution. Such repayments, if made, will be treated as a direct rollover contribution to an eligible retirement plan. The income tax on the distribution may be paid ratably over a period of three years.

Plan Sponsor Considerations: Contact your consultant and provider/recordkeeper to determine how this rule impacts your plan and who may be considered "qualified individuals".

Plan Loans - The CARES Act increases the plan loan limits to the lesser of $100,000 or 100% of the participant's vested account balance (from the existing limit of the lesser of $50,000 or 50% of the participant's vested account balance). Qualified individuals (as defined above) are entitled to receive these increased plan loans for 180 days from the date of the enactment. Loan repayments with respect to any outstanding loan made to a qualified individual that are required to be made between the date of enactment and December 31, 2020 (including with respect to loans taken prior to the date of enactment) may be delayed for a period of one year. After the delay, repayments shall be adjusted to reflect the delay of up to a year and any interest that accrued during the delay.

Benefits in Focus is a publication circulated by the USI Consulting Group Regulatory & Compliance Department and is designed to highlight various retirement and employee benefit matters of general interest to our readers. It is not intended to interpret laws, regulations or to address specific client situations.

The information contained herein is meant for general educational purposes only.

Plan Sponsor Considerations: Contact your consultant and provider/recordkeeper to add this new rule to your plan loan program and communicate changes to employees.

Temporary Waiver of Required Minimum Distributions – The CARES Act waives the required minimum distribution requirements applicable to defined contribution plans and IRAs for the calendar year 2020. The Act delays the required minimum distributions for a period of one year, with the delay applying to both 2019 distributions that were required to begin no later than April 1, 2020, and 2020 distributions. The CARES Act also provides a special rollover provision for any required minimum distributions received in 2020.

Plan Sponsor Considerations: Contact your consultant and provider/recordkeeper to ensure new rules are added to your plan document to delay RMDs.

Implementation and Plan Amendments – Employers and plan sponsors may put these provisions in effect immediately and adopt plan document amendments for these provisions at a later date; in most cases the due date will be no later than December 31, 2022.

CARES Act Retirement Related Provisions for *Defined Benefit* Plans:

In an effort to ease the burden on employers who sponsor defined benefit plans, the CARES Act offers two major changes to defined benefit plan funding rules applicable to single employer plans. Employers sponsoring single employer pension plans will be able to defer until January 1, 2021 required minimum contributions that are due during 2020. This includes the ability to defer required quarterly contributions. It is important to note, however, that the delayed payment will include interest, increasing the total amount that is due and payable on January 1, 2021.

The CARES Act also provides employers with the option to apply the plan's 2019 adjusted funding target attainment percentage (AFTAP) to the 2020 plan year as well, which will determine whether the plan will be subject to certain benefit restrictions.

Plan Sponsor Considerations: Review current required contributions with your actuary. Evaluate the impact of deferring 2020 required contributions until January 1, 2021. Contact your actuary to explore ways to reduce costs.

II. ERISA REPORTING and DISCLOSURE REQUIREMENTS

The CARES Act amends ERISA to give the Department of Labor (DOL) the authority to extend or postpone certain reporting and disclosure deadlines for a period of one year in the case of a public health emergency. To date the DOL has not announced any extensions due to the coronavirus. However, if the DOL makes any such announcements affecting reporting and disclosures deadlines and requirements, we will notify you as soon as possible.

III. IRS ANNOUNCES DEADLINE EXTENSIONS FOR PLAN DOCUMENT RESTATEMENTS

On Friday, March 27th the IRS announced that due to the pandemic, it is extending the deadlines for employers to adopt restated 403(b) plans and pre-approved defined benefit plans as follows:

- The 403(b) plan deadline is extended to June 30, 2020 (from the original deadline of March 31, 2020)
- The pre-approved defined benefit plan deadline is extended to July 31, 2020 (from the original deadline of April 30, 2020)

Your USI Consulting Group representative is available to assist you with any questions you may have related to the CARES Act, as well as other retirement plan related issues that may have arisen in connection with the pandemic. As always, feel free to contact us with your questions and concerns. We will continue to provide updates on the CARES Act and other regulatory and legislative developments.