April 8, 2020

COMPLIANCE ALERT

THE IMPACT OF THE CARES ACT ON YOUR RETIREMENT PLAN

In response to the COVID-19 pandemic, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. The bill provides for emergency assistance response for individuals, families and businesses affected by the Coronavirus. The following is a brief summary of the CARES Act, as it relates to certain types of employer sponsored retirement plans and IRA's, and the action items needed to ensure the document and operation of your retirement plan remains in compliance with the IRS/DOL.

CORONAVIRUS RELATED DISTRIBUTIONS:

Qualifying individuals may withdraw, penalty free, 100% of their vested account balance up to $100,000. This is an optional provision and would require the plan be amended retroactively no later than December 31, 2022. Here's what you need to know:

- ✓ Distributions are only available between January 1, 2020 and December 31, 2020.
- ✓ Withdrawals are exempt from the 10% early distribution penalty if you are under 59 ½.
- ✓ Withdrawals are exempt from the 20% mandatory federal withholdings tax.
- ✓ Federal income tax may be spread evenly over 3 taxable years beginning with 2020.
- ✓ Withdrawals are not eligible for rollover.
- ✓ Aggregate withdrawal limit of $100,000 applies to all retirement plans and IRA's.
- ✓ Withdrawals may be taken from IRA's, 401(k), 403(b) and 457(b) plans.
- ✓ Withdrawals may be repaid over 3 years to any qualified retirement plan or IRA and would be considered as an eligible rollover.

QUALIFYING INDIVIDUALS FOR DISTRIBUTION AND LOAN RELIEF:

An individual qualifies for favorable tax treatment of distributions, increased loan limits and delay of loan repayments, if they meet one of the following requirements:

- ✓ Individual is diagnosed with COVID-19.
- ✓ Individual has a spouse or dependent diagnosed with COVID-19.
- ✓ Individual experiences adverse financial consequences as a result of being quarantined.
- ✓ Individual is furloughed, laid off, has work hours reduced or is unable to work due to lack of childcare due to COVID-19.
- ✓ Business owned or operated by the individual is closed or the business hours are reduced due to COVID-19 or other factors as determined by the Treasury Secretary as it relates to COVID-19.

Qualifying individuals may "self-certify" that they meet one of the requirements above.

INCREASED LOAN LIMIT:

If loans are allowed by the plan, the loan limit can be increased to the lesser of $100,000 or 100% of the participant's vested account balance, less the highest outstanding loan balance in the last 12 months. This is an optional provision and would require the plan be amended retroactively no later than December 31, 2020. Here's what you need to know:

- ✓ Increased loan limit applies to new loans made between March 27, 2020 and September 23, 2020.
- ✓ Increased loan limit applies to qualified individuals as it relates to COVID-19.
- ✓ Existing plan loan limit applies (i.e. may limit to one outstanding loan).
- ✓ Scheduled plan loan payments due from March 27, 2020 through December 31, 2020 may be delayed for up to one year, but interest will continue to accrue during the payment suspension period. The plan can extend the term of the loan for up to one year.

WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS (RMD'S):

The CARES Act temporarily waives the required minimum distributions for 2020 with respect to certain qualified retirement plans and IRA's. This waiver does not pertain to defined benefit/cash balance plans and is not an optional provision. Here's what you need to know:

- ✓ RMD waiver applies to any individual who turned 70 ½ on or before December 31, 2019 and delayed their first RMD until April 1, 2020.
- ✓ RMD waiver applies to any RMD due in 2020.
- ✓ RMD's taken during 2020 will be considered as eligible for rollover during 2020.
- ✓ RMD's from defined benefit/cash balance plans are still required.
- ✓ No plan amendment is required.

EXTENSION FOR FUNDING DEFINED BENEFIT/CASH BALANCE PLANS:

Employers who sponsor a single employer defined benefit plan, including cash balance plan, will be given more time to meet their funding obligations by delaying the date of contributions due in 2020 until January 1, 2021. The delay applies to final contributions due in 2020 for the 2019 plan year. Here's what you need to know:

- ✓ The funding extension applies immediately and can provide cash flow relief.
- ✓ No plan amendment is required to implement this provision.
- ✓ Delayed contributions will be subject to accrued interest.