HowardSimon, Inc.

retirement plans • payroll solutions

human resources management

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Impact on Retirement Plan Sponsors and Participants

Housekeeping.

- Attendee lines are muted
- If you have a question, you can type it in the Question and Answer module or use the Chat feature for direct messages
- Q&A will be at the end of the session

Agenda.

1. Definition of Coronavirus-Related Eligible Individuals
2. Coronavirus-Related Distributions (CRD)
3. Plan Loans
4. Required Minimum Distribution (RMD)
5. Employer Contributions

Coronavirus Aid, Relief, and Economic Security (CARES) Act.

- President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act on March 27, 2020 in response to the economic impact of the COVID-19 pandemic

- The CARES Act includes provisions that make it easier for participants to draw on their retirement savings in response to the financial pressure resulting from the COVID-19 pandemic through plan withdrawals or loans

Coronavirus-Related Eligible Individuals.

- Relief provided under the CARES Act is available to a plan participant if either:
  1. The participant or the participant's spouse or dependent is diagnosed with COVID-19 using a test approved by the Centers for Disease Control
  2. The participant experiences adverse financial consequences as a result of:
     - being quarantined, furloughed or laid off,
     - having work hours reduced,
     - closing or reducing hours of the participant's business, or
     - being unable to work due to lack of childcare related to the virus

(The CARES Act does not specify whether or how a participant will be required to substantiate that the above requirements have been met. ***An employer can rely on an employee's certification that these conditions are satisfied.)***

Coronavirus-Related Distributions.

- Generally defined as any distribution from an eligible retirement plan made on or after January 1, 2020 and December 31, 2020

- An Eligible Individual may withdraw a total of $100,000 from all eligible retirement plans maintained by the participant
  - Distributions will not be subject to the 10% early distribution penalty
    - The waiver applies to distributions from IRAs, 401(k) and other 401(a) plans, governmental 457(b) plans, and 403(b) plans
  - Distributions also exempt from the mandatory 20% federal withholding
  - The participant may elect to delay recognizing taxable income attributable to the distribution for up to three years
  - The participant may repay all or a portion of the distribution within the three years
    - The repayment may be made to any eligible retirement plan or IRA to which the participant would have otherwise been able to make a rollover contribution
    - Repayments of coronavirus-related distributions will not count toward annual contribution limits for the years in which they are made

Plan Loans.

1. The maximum loan amount for qualified loans is increased up to $100,000 or 100% of the vested balance (from $50,000 or 50% of the vested account balance) per the election of the Sponsor. This increase applies to loans taken for a period of 180 days after date of enactment.

2. A participant who has an outstanding loan balance on or after the date of enactment, and loan payments due from date of enactment through December 31, 2020, can delay payments until the start of 2021.
   - Interest continues to accrue regardless of whether repayments are being made
   - If a participant elects to defer loan repayments, the outstanding balance of the loan should be re-amortized once payments resume
   - The five-year loan term can be extended to account for any period during which the participant defers repayment

Required Minimum Distribution (RMD) Relief.

- The SECURE Act increased the age to 72 from 70 ½
- The CARES Act allows a plan sponsor to suspend making required minimum distributions during the 2020 calendar year
  - Therefore retirees can skip their 2020 (or 2019) distribution and leave money in a defined contribution plan, such as a 401(k) or 403(b), or an individual retirement account, without penalty
    - Missing an RMD normally causes a 50% tax penalty on the amount that should have been withdrawn
    - Currently, distributions already processed cannot be undone
    - If requested, a participant can still receive the RMD in 2020
  - RMD relief does not apply to Defined Benefit Plans
- RMD's not taken in 2020 will NOT have to be made up in 2021

Plan amendments & CARES Act.

- The Distribution and Loan changes are OPTIONAL
  - Can be implemented with respect to employer formally agreeing to amend the Plan
  - Actual amendments can be delayed
    - Amendment deadline for non-governmental plans is the last day of the 2022 plan year
    - Amendment deadline for governmental plans is the last day of the 2024 plan year
  - The Treasury Department has the authority to extend these deadlines

- Contact HowardSimon Administration to discuss implementation

Employer Contributions.

- No guidance in the CARES Act related to reducing or suspending employer contributions, therefore the current rules apply

  1. Safe Harbor contribution
     - 30-day participant notification required if Safe Harbor notice includes mid-year reduction or suspension language
     - Sponsor is operating at an economic loss for the Plan Year
     - Plan becomes subject to ADP/ACP nondiscrimination tests
     - Fund contribution through the effective date of the amendment
  2. Non-discretionary, non-safe harbor contributions
     - Amend prospectively to reduce or suspend
     - Fund contribution through the effective date of the amendment
  3. Discretionary contributions
     - No amendment necessary however a participant communication is helpful

Question & Answer.

- Contact HowardSimon
- (847) 945-0340
- retire@hsimon.com