USI® CONSULTING GROUP

April | 2020

Benefits in Focus
PLAN SPONSOR NEWSLETTER

THE CARES ACT | FREQUENTLY ASKED QUESTIONS (FAQs)

The CARES Act (Coronavirus Aid Relief and Economic Security Act) includes several retirement plan provisions, many of which allow plan participants who are experiencing COVID-19 related consequences to access their plans' funds through certain distributions and loans that are not ordinarily permitted. These Frequently Asked Questions ("FAQs") are being provided to help answer some of the commonly asked questions regarding the CARES Act retirement related provisions and are based on the most recent available information.

During this difficult time, USI is here to support our clients and will continue to monitor this fast-evolving situation and provide you with up to date information. As always, if you have questions or would like more information on this topic, please contact your USI Consulting Group representative.

QUALIFIED INDIVIDUALS

The CARES Act allows certain relief (plan distributions and loans) to "Qualified Individuals". Who is considered a "Qualified Individual"?

Under the CARES Act a "qualified individual" is a participant who has either been diagnosed with COVID-19, or whose spouse or dependent has been diagnosed with COVID-19, or a participant who has experienced adverse financial consequences as a result of COVID-19 due to the participant's quarantine, furlough, reduction in work hours, inability to work due to lack of child care, or the closing or reduction of hours of a business owned or operated by the individual due to the virus.

If the plan sponsor extends the relief allowed under the CARES Act to participants, does the plan sponsor have to verify a participant is a "Qualified Individual"?

No. The plan sponsor may rely on the employee's "self-certification" that the participant meets the definition of a "qualified individual".

CORONAVIRUS RELATED DISTRIBUTIONS

Can participants who are affected by coronavirus take a distribution from a defined contribution plan?

Yes. If the plan sponsor permits, the CARES Act allows "qualified individuals" to make a Coronavirus Related Distribution of up to $100,000 from a defined contribution retirement plan from January 1, 2020 and before December 31, 2020. These distributions are not subject to the 10% early withdrawal penalty or the 20% mandatory income tax withholding. Also, income tax on the distribution may be paid ratably over a period of three years and participants have the option to repay the distribution back to the plan within three years of the distribution.

Can a Coronavirus Related Distribution be permitted from defined benefit plans?

Yes, it's possible, but in a more limited way than under defined contribution plans. The CARES Act does not add a distribution option for defined benefit plans, nor does it change when distributions can be made from defined benefit plans. For example, under the terms of the plan terminated vested participants may be permitted to receive lump sum distributions at any age, while active employees may only be permitted to receive an in-service distribution no earlier than the age of 59 ½. Once a distribution is made from a defined benefit plan, amounts of up to $100,000 can be considered Coronavirus Related Distributions, if made from January 1, 2020 and before December 31, 2020 to "qualified individuals", and can receive the favorable tax treatment.

Under the CARES Act the aggregate amount an individual may receive as a Coronavirus Related Distribution cannot exceed $100,000. How is the aggregate amount determined?

The aggregate distribution amount of $100,000 is based on distributions from all plans maintained by the employer (and any member of any controlled group which includes the employer).

Are plan sponsors required to allow participants to take a Coronavirus Related Distribution?

No. The Coronavirus Related Distribution is an optional provision, meaning plan sponsors are not required to offer Coronavirus Related Distributions to their plan participants.

If a plan sponsor does not elect to provide the provisions under the CARES Act, can a participant still treat a distribution as a Coronavirus Related Distribution?

Yes. Any permissible distribution (up to $100,000) under the terms of a defined contribution or defined benefit plan (i.e., in-service distribution, hardship withdrawal, distribution due to termination of employment) that is received between January 1, 2020 and before December 31, 2020 by a participant or beneficiary who is a “qualified individual” can generally be considered a Coronavirus Related Distribution and receive the favorable tax treatment. The recipient’s ability to treat the distribution as a Coronavirus Related Distribution, provided he/she is a “qualified individual”, is not dependent on how a plan treats the distribution.

PLAN LOAN RELIEF

Does the CARES Act provide participant loan relief?

Yes. If the plan sponsor permits, for “qualified individuals”, the CARES Act increases the plan loan limits up 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). However, such increased limits are only applicable to loans made within a 180 day period from March 27, 2020 to September 23, 2020.

Is there any relief for participant’s who can’t make their loan repayments?

Yes. If the plan sponsor permits, the CARES Act provides that any loan repayments (whether for a new loan or an existing loan) due during the period from March 27, 2020 to December 31, 2020, for “qualified individuals”, can be delayed for a period of one year. Also, the five-year repayment period will disregard the 2020 delayed period.

Are plan sponsors required to expand the loan provisions under the CARES Act?

No. The expanded loan provisions under the CARES Act are optional provisions. Plan sponsors are not required to add these provisions to their existing loan program.

REQUIRED MINIMUM DISTRIBUTION WAIVER

Are participants still required to take Required Minimum Distributions (RMDs)?

No. The CARES Act waives the required minimum distribution requirements applicable to defined contribution plans for the 2020 calendar year. The waiver applies to any RMDs required in 2020, including participants who turned age 70½ in 2019 but who did not yet receive their first RMD for 2019 (as required by April 1, 2020). For these individuals no RMDs are required for 2019 and 2020.

PLAN FUNDING RELIEF

Is there any relief for pension plans under the CARES Act?

Yes. The CARES Act temporarily allows employers sponsoring single employer pension plans, including money purchase plans, to defer any required minimum contributions that are due during 2020 until January 1, 2021. 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 due and payable on January 1, 2021.

PLAN AMENDMENTS

Does the plan need to be amended in order to incorporate the CARES Act retirement related provisions?

Yes. Plan sponsors may implement these provisions immediately as of March 27, 2020 (the enactment date) and adopt plan amendments for these provisions at a later date; for most calendar year plans the deadline to adopt plan amendments will be December 31, 2022.

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.