



# The CARES Act Impact on Retirement Planning

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# How the CARES Act Affects Retirement Plans

- On March 23, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law by the President.
- The CARES Act is the latest round of federal government support relating to the coronavirus public health crisis and associated economic turmoil.
- It contains some significant retirement plan provisions, all of which are **VOLUNTARY**)



# What the CARES Act Covers for Retirement Plans

## Participant Relief – Access to Retirement Plan Funds

1. Coronavirus-Related Distribution Right
2. Loan Limit Increase
3. Loan Suspension.
4. RMD Relief



# CARES Act and Retirement Plans

## Participant Relief – Access to Retirement Plan Funds

- Voluntary
- Plan Sponsor must sign “Opt-Out” documents if they do not wish to “Opt-In”
- The Pension Studio is treating all clients as “Opting-In”



# Coronavirus-Related Distributions

## Who does the CARES Act Apply to?

- Active and Terminated participants
- Benefits a qualified individual even if plan sponsor does not adopt the distribution option



# Coronavirus-Related Distribution Right

For distributions from January 1, 2020 through December 30, 2020, a **qualified individual** can elect to treat a 401(k) plan distribution as a “Coronavirus-related distribution,” which has the following benefits:

- Distribution right of \$100,000 from the plan (not to exceed the participant’s account balance) through December 30, 2020 that is subject to **special tax relief**.
  - Not subject to the 10% early withdrawal tax for distributions prior to age 59-1/2
  - Not subject to mandatory 20% withholding (rather 10% voluntary withholding applies)
  - Taxed pro-rata over a three year period (2020-2022), unless the individual elects otherwise
  - Eligible for re-contribution back into a plan or IRA within three years from the date of distribution
  - Unlike a hardship distribution, there is no requirement to show documentation of losses or expenses to justify the distribution.



# Qualified Individual

**Includes any individual (active or terminated), if:**

- Diagnosed with coronavirus
- Spouse or dependent is diagnosed with coronavirus
- Experiences adverse financial consequences as a result of being quarantined
- Furloughed or is laid off or has work hours reduced due to coronavirus
- Unable to work due to lack of childcare due to coronavirus
- Unable to work due to closing or reducing hours of a business owned or operated by him/her due to coronavirus

Plan sponsors may rely on a participant's certification that he or she satisfies the above conditions to be a Qualified Individual.



# Coronavirus-Related Loans

## Requirements:

- Available to **Qualified Individuals** (same definition as prior)
- Limited to the lesser of:
  - \$100,000; or
  - 100% of the participant's vested account balance
- Available beginning on March 27, 2020 (the date the CARES Act was enacted) and ending September 23, 2020 (180 days later)



# Coronavirus-Related Loan Repayment Delay

## Benefits for Qualified Individuals:

- Loan repayments due between March 27, 2020 and December 31, 2020 may be suspended for one year
- Suspension period added to the end of the maximum 5-year loan duration (or more for principal residence loans)
- Interest will continue to accrue at the rate associated with the loan
- Subsequent repayments, plus applicable interest, will be re-amortized over the extended repayment period



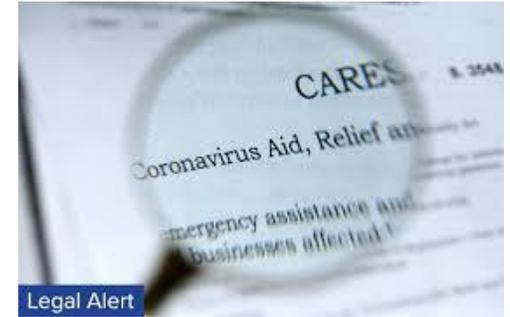
# Suspension of Required Minimum Distributions (RMDs) for 2020

## Specifics of the Suspension:

- **Optional** provision
- Waives RMDs from 401(k)'s & IRA's during the 2020 calendar year
- Participant not required to be a Qualified Individual
  
- Does not include RMDs for:
  - Defined benefit plans; or



# Suspension of RMDs



## *Planning Note:*

- If a participant's 1st RMD is due **April 1, 2020**, and wasn't ***processed prior to January 1, 2020***, then the participant may waive both the 1st RMD, (due April 1, 2020), and 2nd RMD (due December 31, 2020)
- If a participant already took an RMD during the 2020 calendar year, that RMD can be rolled back into the plan or an IRA
  - Note: 60-day rollover rule applies

# SUMMARY: COVID-19 And Your Retirement Plans: Here's What You Need To Know:

1

Required Minimum Distributions (RMDs) for 2020 are not required

2

Distributions prior to age 59 ½ of up to \$100,000 are not subject to the 10% Excise Tax in 2020

3

Distributions of up to \$100,000 this year can be reported as income over three years and/or repaid

#1 Applies to all individuals

#2 & 3 Apply to Qualified Individuals



# Coronavirus-Related Distributions

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## Defined Benefit Pension Plans

- For Defined Benefit and Money Purchase Plans, the rules still apply that in-service distributions are not allowed prior to 59-1/2 (reduced from 62 since the SECURE Act)

**NO EXCEPTIONS**



# Single-Employer DB Benefits

## **Delay in 2020 Funding Obligations:**

- Delays any minimum funding (including quarterly contributions) due to the plan during the 2020 calendar year, to January 1, 2021
- Delayed contributions are subject to interest for the period following the original due date
- Note, if a plan sponsor delays funding, also delays deduction to following plan year

# Freeze CB or DB Plan

- Participants will not accrue future benefits under a plan year that is frozen
  - Note, full freeze may not be possible
- Funding requirements derived from prior plan years still required
- Plan must be formally amended to be frozen
- Participants must receive a notice
  - 15 days prior to the freeze date (or 45 days for large plans with over 100 plan participants)
- Does not impact administrative requirements for frozen plan years
  - 5500 and PBGC (if applicable) filings/premiums still apply

# Earlier Distribution Options in DB Plans

## Employee Relief in DB Plans:

- Coronavirus-related distributions restricted in DB Plans
  - Note, any distribution to qualified individual may receive CRD tax benefits
- For active participants, since the passage of the SECURE Act, DB plans may permit the option to commence benefits as early as age 59 ½
- For terminated vested participants, DB plans may permit benefits to commence at ages younger than the plan's current retirement age





# SFEES

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