

EGPS
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CARES Act and other COVID-19 Relief

April 7, 2020


Presented by
Erin Books, ERPA, CPC, TGPC
Charles Brown, FCA, MSPA

Offices in
Alabama . California . Florida . Kansas . Louisiana . New Jersey . New York

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CARES Act Passed March 27

- The Coronavirus Aid, Relief and Economic Security Act was signed into law on Friday, March 27
- Several provisions impact retirement plans and IRAs
 - New distribution option
 - Expanded loan ability
 - Waiver of RMD requirements
 - Extended deadline to make DB plan contributions
 - Other forms of relief requested
- Other COVID-19 relief

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CARES Act – Distribution Provisions

- Coronavirus-Related Distributions (CRD)
 - New, optional, distributable event
 - Available from all qualified plans and IRAs before December 31
- A “qualified individual” may take up to \$100,000 in distributions
 - This is not a hardship distribution – it is a new distributable event
 - No need to prove that the amount of the distribution is needed to fix the problem

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CARES Act – Distribution Provisions

- Considered to meet “plan distribution requirements” for 401(k), 403(b) and 457 plans before age 59½
- What about defined benefit/cash balance plans?
 - A CRD from a DB plan is subject to the age 59½ restriction—this was not changed
 - The plan can permit a CRD after age 59½ so employees can take advantage of CRD benefits

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CARES Act – Distribution Provisions

- \$100,000 limit
 - Per person
 - One limit for all plans and IRAs combined
- Employer has no duty to enforce individual limits
 - Plans treated as in compliance if total distributions to individual from all plans maintained by the employer do not exceed \$100,000
 - Includes controlled group members

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CARES Act – Distribution Provisions

- “Qualified Individual” means
 - Diagnosed with COVID-19
 - Spouse or dependent diagnosed with COVID-19
 - Impacted financially by COVID-19 due to:
 - Layoff, furlough or quarantine or reduced working hours due to COVID-19
 - Taking time off to care for children due to lack of childcare during COVID-19
 - Having to close or reduce hours of operation in a business owned or operated by the person during COVID-19 (business owners only)
- Law provides for “self-certification” by participant
 - Plan administrator does not have responsibility to gather proof of participant’s qualification

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CARES Act – Distribution Provisions

- Special tax treatment
 - No premature distribution penalty
 - Pre-59½ distributions exempt from usual 10% penalty
 - Treated as not eligible for rollover for withholding purposes
 - No mandatory withholding; 10% applies unless waived
 - Income tax inclusion over three years, unless participant elects out
 - Election most likely on individual's 1040

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CARES Act – Distribution Provisions

- Optional “pay back” provisions allow participant to deposit amount of distribution back into the qualified plan or IRA with three years to eliminate taxation
 - 3-year period begins on day after distribution received
 - Pay back may be made in one or multiple contributions
 - Does not have to be the plan from which the CRD was originally taken

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CARES Act - Loan provisions

- Nontaxable loan limits under section 72(p) temporarily increased for qualified individuals (same as CRDs)
 - Percent of account balance limit
 - Was 50%
 - Now 100%
 - Dollar limit
 - Was \$50,000
 - Now \$100,000
 - Applies to loans initiated within 180 days of enactment of CARES Act
 - March 27, 2020 – September 23, 2020

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CARES Act - Loan provisions

- Delay of repayment
 - May be applied to any outstanding loan from a qualified plan
 - Even new loans taken now
 - Payments with due dates from March 27, 2020 – December 31, 2020 can be delayed for one year
 - Any subsequent payments will be moved accordingly such that there is no acceleration or balloon amount due in the future

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CARES Act – RMD Waiver

- All RMDs for IRAs & DC plans due in the year 2020 are waived
 - RMDs due by 12/31/2020 for the 2020 year are waived
 - RMDs due by 4/1/2020 for the 2019 year are waived (but only if not distributed in 2019)
- This waiver does not affect defined benefit plans
 - RMDs are still required for DB plans

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CARES Act – RMD Waiver

- The RMD amount for 2020 is eligible for rollover treatment
 - Generally within 60 days of distribution
 - We are expecting guidance to extend this ability to roll over
- Beneficiary distributions are also waived for this year
 - 5-year rule becomes a 6-year rule

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CARES Act – DB Plan Funding Delayed

- Single employer funding for defined benefit, cash balance and money purchase pension plans deadline is delayed
- Due date for contributions due in 2020 is now January 1, 2021
- Interest will accrue from original due date through deposit date
- Deadline for tax-filing was previously extended from 4/15 to 7/15, which provided more time to make deductible contributions

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Gotchas of CARES Act Relief

- State income tax rules may not align with federal relief
 - Early distribution penalty might still apply at a state level
 - For example, California has a 2.5% penalty for early distributions
 - Income tax withholding may still be required at a state level
- If you take advantage of the repayment of a CRD you may need to amend your tax filing to get back money you have already paid for taxes
- Withdrawing amounts now while the market is down could have a long-lasting impact even if repaid later

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DC Plan Contribution Relief

- 2019 employer contributions deductible if contributed by extended tax return due date of 7/15 (for 4/15 filers)
- ARA has requested relief for 2020 required plan contributions for defined contribution plans; and for 2019 for plans with fewer than 500 participants if contributions have not been made yet

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Pooled Plan Issues

- If last valuation was before the market loss, it may be necessary to do an interim valuation to update participant account values to the current plan assets value
 - Consider the amount of the distribution compared to the balance in the plan
 - Would a distribution based on the 12/31 valuation hurt the remaining plan participants? Will it hurt the participant receiving the distribution?
- Discuss considerations with employer before processing a distribution in situations of market decline

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Partial Plan Terminations

- Generally, a partial plan termination occurs if 20% of the workforce is terminated in one year
 - This is based on facts and circumstances and could occur if under 20% are terminated
- Partial plan terminations require full vesting of “affected participants”
 - Includes anyone who terminated during the year, even if voluntary
- ARA is asking for relief for vesting requirement if significant portion of participants return to work
- **Do not increase vesting on distributions for this reason now;** revisit at year end to determine if required

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IRS Extends Restatement Deadlines

- 403(b) plan restatement deadline extended from March 31, 2020 to June 30, 2020
- Defined benefit/cash balance plan restatement deadline extended from April 30, 2020 to July 31, 2020

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Q & A

- Use the Q & A feature to submit questions
- We will do our best to answer as many questions as time allows

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with questions, or contact us at
salesupport@egps.com to be directed to a consultant

Thank you for attending!

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