CARES Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act includes several provisions for economic relief for retirement plan participants. Below is a summary of the CARES Act as it pertains to qualified retirement plans. Please note that your retirement plan will need to be amended if you wish to incorporate any of these economic relief options.

Participant Distributions

- **Qualified COVID-19 Related Distributions Made During 2020**. Currently most retirement plans only allow distributions for participants under age 59.5 in certain situations – typically either at termination, or in the event of a hardship situation due to a very limited set of hardship circumstances. In addition, most distributions prior to age 59.5 are subject to a 10% early withdrawal penalty, in addition to income taxes.

  Under the CARES Act, COVID-19 related distributions of up to $100,000 from qualified retirement plans are no longer subject to the 10% early withdrawal penalty. In addition, participants may spread the income tax out on such distributions over a three year period. Finally, participants also may pay back their COVID-19 related distributions – tax free – to a qualified retirement plan over a three year period. Repaid distributions will be treated similarly to rollover distributions and will not impact a participant's annual contribution limit.

- **Qualified Covid-19 Related Distributions are Optional.** You are not required to allow COVID-19 related distributions in your qualified retirement plan.

- **Required Minimum Distributions**. Participants over a certain age (either age 70.5 or age 72) may be required to take a minimum distribution from their account each year. The CARES Act waives this minimum distribution requirement for the 2020 tax year.

Plan Loans

- **Qualified COVID-19 Related Loans**. The loan limits for loans from retirement plans are typically set at the lesser of 50% of a participant's vested balance or $50,000. Loans also must be repaid within five years in most cases.

  Under the CARES Act, COVID-19 related loan limits may be increased to the lesser of 100% of a participant's vested balance or $100,000. In addition, the initial loan repayment on these loans may be deferred for up to one year. Interest will accrue during the one year deferment. COVID-19 related loans are available during a 180 day period beginning on March 27, 2020.

- **Existing Plan Loans**. Plan loans that were in place prior to March 27, 2020, may also benefit from the CARES Act. Qualified participants may defer their loan repayments for up to one year. Interest will accrue during the one year deferment.

- **Five Year Payback Increased**. For participants experiencing a COVID-19 related financial hardship, the five year maximum payback has been increased by up to one year to allow participants to take advantage of the loan repayment deferment.

- **Qualified Covid-19 Related Loans are Optional.** You are not required to allow COVID-19 related loans in your qualified retirement plan.

<u>Qualified Participants</u>

- **Who is Eligible for a CARES Act Distribution or Loan?** Participants are eligible for the expanded loan and distribution provisions of the CARES Act only if they meet certain criteria. This includes:
    - Participants diagnosed with COVID-19
    - Participants whose spouse or dependent is diagnosed with COVID-19
    - Participants who experience adverse financial consequences as a result of COVID-19, such as quarantine, furlough, layoff, reduced work hours, or being unable to work due to a lack of childcare as a result of to COVID-19
    - Other factors that may be determined by the Treasury Secretary

<u>Plan Amendments</u>

- **You May Implement These Changes Immediately.** If you choose to implement these changes for your company's qualified retirement plan, the plan will need to eventually be amended. However, the amendment is not required to be made until first day of the plan year beginning on or after January 1, 2022.