Retirement Plans During the Coronavirus Pandemic

Presentation will start momentarily, please stand by.

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Coronavirus Related Withdrawal Options

Coronavirus Related Distributions (CRDs)

- Qualified Individuals may receive up to $100,000 of their vested account balance
- 10% early withdrawal penalty is waived
- Participant may pro-rate the amount of distribution included as taxable income over a 3-year period
- Distribution may be repaid to the plan, or other qualified retirement vehicle within a 3-year period
- Available until December 31, 2020

Coronavirus Related Loans (CRLs)

- Qualified Individuals may take loan up to the lesser of $100,000 or 100% of their vested account balance.
- CRLs only available until <u>September 23, 2020</u>
- Plans must allow for loans or be amended to allow for loans prior to adding this provision
- Qualified Individuals may request that loan payments from March 26, 2020 through December 31, 2020 be suspended for up to 1 year.
  - Loan must be in good order
  - This applies to new and existing loans
  - The 1 year suspension period will be added to the original loan term and include interest

Who is a Qualified Individual?

- A Qualified Individual is any participant who either:
  - Has been diagnosed with either the SARS-CoV-2 or COVID-19 virus by a CDC approved test
  - Whose spouse or dependent has been diagnosed
  - Has suffered adverse financial consequences because one of the following has occurred as a result of the pandemic:
    - ➢ Laid off, furloughed, quarantined, or had work hours reduced
    - ➢ Is unable to work due to lack of childcare
    - ➢ Owns a business that has had to close or reduce hours
    - ➢ Or other factors as determined by the Secretary of the Treasury (or Secretary's delegate)
- Participants may self- certify

Plan Amendments

- Employer is not required to adopt the CRD or CRL provisions.
- Plan may choose which provisions to adopt
- Amendment must be completed retroactively, no later than the last day of the plan year beginning in 2022.

Required Minimum Distributions

- Required Minimum Distributions due to be paid in 2020 are waived
  - Applies to all participants, not just Qualified Individuals
  - Does not apply to Defined Benefit and non-governmental 457(b) plans
- SECURE Act – increased the RMD age from 70 ½ to age 72
  - Only applies to individuals who do not attain age 70 ½ until after 1/1/2020.

Qualified Birth or Adoption Distribution

- Qualified Birth or Adoption Distribution
- Participant may request a distribution of up to $5,000 within one year following birth or adoption.
- Distribution avoids 10% early withdrawal penalty, but still taxable to employee
- Participant may repay the distributed amount back to the plan in the future.
- Provision must be adopted by plan
- IRS Guidance is required

In-Service Distributions in Pension Plans

- In-service distributions age in defined benefit and money purchase plans are allowed to be taken at age 59 ½.
- Distributions from governmental 457(b) plans are allowed at age 59 ½.

Employer Contributions

Defined Benefit/Cash Balance Plan Funding

- Extends due date of 2019 required contribution funding and 2020 quarterly funding until January 1, 2021.
  - Includes quarterly contributions (4/15, 7/15 and 10/15)
  - Minimum contribution is increased by effective rate of interest for the interim period
  - NOTE: 2020 PBGC Premium due date has <u>not</u> been extended.
    - As of today, if you have a variable rate premium and deposit your contribution after 10/15, your contribution will not count toward your variable rate premium determination.
- Adjusted Funding Target Attainment Percentage (AFTAP)
  - 2019 AFTAP may be used for 2020

Freezing Defined Benefit/Cash Balance Plan Benefits

- DB Plans may freeze benefits accruals or allocations.
  - Benefits/allocations would be $0 and no new participants would enter the plan until unfrozen.
  - Cash Balance accounts would continue to earn interest.
- Plan must be frozen prior to any participant earning a benefit during the year, typically after working 1,000 hours.
- Plan may be unfrozen at anytime, including in the same year it is frozen.

Defined Contribution Plans

- Contribution deadlines have not been extended.
  - Note: Tax Forms, including 5500 forms, due between 4/1/2020 and 7/15/2020 have automatically been extended until 7/15/20. There is currently no automatic extension for calendar year plans.
- Employer contributions stated in the plan document as a fixed amount may be stopped or reduced, if prior to participants becoming eligible. If earned, contributions may be stopped or reduced but must be funded up until the amendment is adopted.
- Discretionary contributions may be stopped at anytime

Safe Harbor Contributions

- Safe Harbor Contributions may be stopped mid-year if:
  - The plan provided a notice containing the "maybe not" language at least 30 days prior to the beginning of the plan year, advising participants that the safe harbor contribution might be suspending during the year; or
  - The plan sponsor is operating at an economic loss for the plan year.

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Safe Harbor Contributions

- Safe Harbor Contributions allow plans to certain required testing
  - Plans that stop safe harbor contributions will need to have ADP/ACP testing performed.
    - If plan fails, returns of deferrals may need to be made to the Highly Compensated Employee (HCEs)
- Plans that are top-heavy may require additional contributions to be made to employees
  - Plan is top-heavy when Key employees have at least 60% of the plan assets
  - Top- heavy minimum contribution – lesser of highest key employee's total contribution as a percentage of pay or 3%

Safe Harbor Contributions

- Secure Act
  - Plan may adopt 3% non-elective safe harbor up to 30 days prior to plan year end.
  - Plan may adopt 4% non-elective safe harbor up to 12 months after plan year end.
  - Safe harbor notice no longer required for plans using 3% non-elective contribution
  - Notice still needed for Safe Harbor Match or using the non-elective contribution to pass the matching contribution.

Partial Terminations

- A partial plan termination generally is deemed by the IRS to occur when 20% of total plan participants are terminated for reasons other than routine annual turnover.
- If there is a partial plan termination, affected plan participants – that is, those who terminate employment – must become 100% vested.
- If employees are re-hired, facts and circumstances can be used to show that a partial termination, in fact, has not occurred.

Pooled Plans

- All plan investments are pooled and participants share in the gain loss of the entire plan.
- Most plans are valued once per year on the valuation date.
- Distributions to participants are paid based on the prior valuation date.
- Because of market decreases, the accounts balances used to pay out participants may be over-valued causing the other participants in the plan to absorb those losses; potentially creating a fiduciary breach.
- Plans should consider performing an interim valuation of the assets or reducing the percentage of the account value that may be distributed.

In Plan Roth conversions

- Plans may be amended to allowed to convert their pre-tax account balance to a Roth account in the plan.
- Account stays invested in the plan, participant pays taxes outside the plan.
  - In-service withdrawal may be taken for the tax withholding, if otherwise allowed by the plan.
- Decreases in the stock market may allow for this conversion to a Roth at a discounted price.

Paycheck Protection Program Loans

- Some industry professionals have indicated that these loans may be used to fund any employer contribution to meet the loan forgiveness requirements.
- Some professionals are arguing that only matching contributions during the affected period may be counted.
- **The consequences of not properly using the PPP loan proceeds is not having the loan forgiven, we strongly urge to you consult with your accountant before making a decision on their use.**

Questions?

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