How Plan Sponsors Should Respond to the CARES Act

Presented by CYRS Wealth Advisors, LLC

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The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, is an unprecedented $2.2 trillion relief package for American taxpayers and families facing the prospect of short- and long-term financial hardship due to the COVID-19 pandemic. Let's examine the retirement-related provisions that will affect employers and their employees, along with some best practices for retirement plan sponsors as they navigate these challenging times.

Waiver of Early Withdrawal Penalty

The CARES Act waives the 10 percent penalty tax on early withdrawals up to $100,000 from a retirement plan or IRA for account owners who meet at least one of the following criteria:

- They are diagnosed with COVID-19.
- Their spouse or dependent is diagnosed with COVID-19.
- They face adverse financial circumstances arising from COVID-19, including, but not limited to, being quarantined, having reduced work hours, being laid off, or being unable to work due to lack of child care.

Please note: Plan administrators may rely on the certification from employees making these withdrawals that they attest to meeting at least one of these criteria.

Further, employees who receive a distribution for the reasons listed above have the option of paying the amount distributed back into their account within three years. If they elect not to return the funds into their account, the amount withdrawn will be taxed.

Higher Retirement Plan Loan Maximums

Retirement plan loan limits are raised to the lesser of $100,000 or 100 percent of the participant's vested account balance in the plan. Participants who take a loan between March 27, 2020, and December 31, 2020, can delay their loan repayment for up to one year.

RMD Waiver

Generally, RMDs are required to be taken annually by IRA, 401(k), 403(b), or other qualified retirement account owners when they turn age 72 (or age 70½, if they reached that age on or prior to December 31, 2019). Since RMDs are calculated on account values based on the prior year's ending balance—when account values were in most cases significantly higher than they are in current depressed market conditions—this temporary waiver will provide relief to account owners by allowing them to avoid withdrawing inflated amounts and paying a bigger tax bill.

Relaxed Plan Amendment Rules

If a retirement plan does not contain a provision for hardship distributions or plan loans, the CARES Act permits the adoption of these provisions immediately, provided the plan is amended on or before the last day of the first plan year beginning on or after January 1, 2022.

Funding Extension
For single employers with defined benefit plans, the CARES Act allows extra time for companies to meet funding obligations by delaying the due date for 2020's contributions until January 1, 2021.

What's Next for Plan Sponsors?
Subsequent government actions may include more substantial relief to retirement plan sponsors. For instance, the CARES Act grants the Department of Labor broad authority to extend deadlines for certain retirement plan required notices, although no extensions have been granted at this time. In order to stay in sync with this ever-changing regulatory environment, it's important to be aware of current events that affect all aspects of employee benefits plans.

For businesses with employees who are feeling the effects of the pandemic, either health-wise or financially, the provisions listed here can be exercised immediately. Keep in mind the deadline for amending plan documents if plan amendments are implemented. Retirement plan fiduciaries and administrators must remain diligent—even in extraordinary circumstances—to fulfill their fiduciary duties and plan administrative tasks. Be sure to consult your service providers (recordkeeper, third-party administrators, or CPA) to make plan amendments if necessary, and speak with your retirement plan advisor or consultant to receive guidance and best practices for managing your company's retirement plan through this difficult economic climate.

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