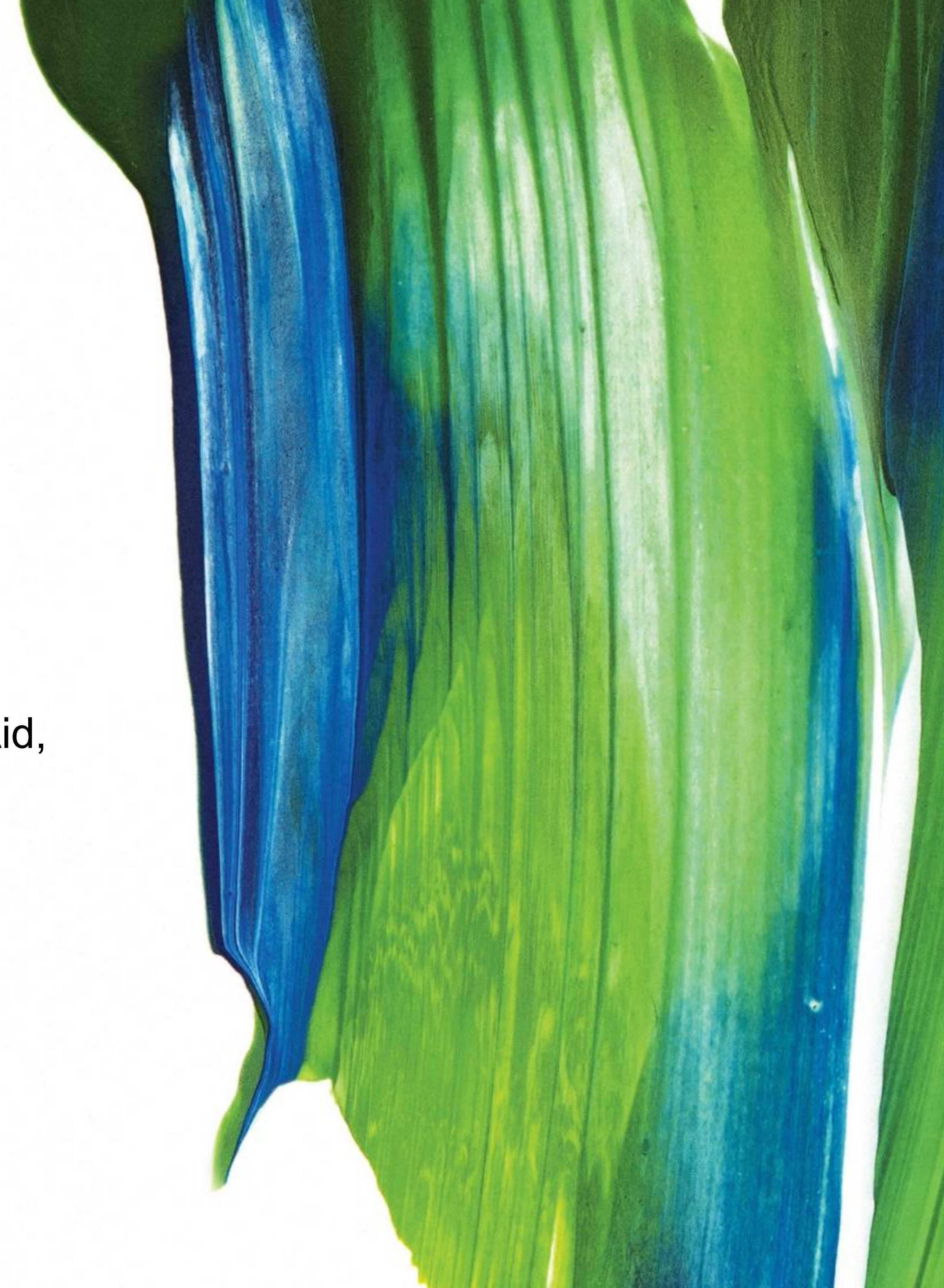
CARES Act

An overview and the John Hancock response to the Coronavirus Aid, Relief, and Economic Security (CARES) Act

April 9, 2020



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Agenda

- CARES Act: Retirement Impact
- Our Response & Changes We're Making
- Q&A

CARES Act: Retirement Impact

Chris Frank, Head of DC Consulting

Introduction

Headline News

- On March 27th, 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 and contains some significant retirement plan provisions
- The CARES Act allows plan participants affected by the coronavirus pandemic to have greater access to or flexibility with their retirement funds by:
  - providing a new in-service distribution with less restrictions and more favorable tax treatment,
  - relaxing the qualified plan loan rules, and
  - waiving required minimum distributions from defined contribution plans and IRAs for 2020

Coronavirus-Related Distributions

What Is It?

- A "coronavirus-related" distribution (a "CRD," or "COVID-19" or "CARES Act" withdrawal) is a new type of in-service distribution under a plan
- CRD is available from 401(k), profit sharing, 403(b) and governmental 457(b) plans, as well as IRAs
  - A defined benefit plan or money purchase pension plan can only make the CRD available for a participant who has attained at least age 59½
- CRD is not subject to the current restrictions on distributions from 401(k), profit sharing, or 403(b) plans (e.g., elective deferrals available only due to hardship or attaining age 59½), or from an IRA
- CRD is an optional plan provision

Coronavirus-Related Distributions

Who Can Request It?

- A “qualified individual” may request a CRD (if available under the plan)
- A “qualified individual” is a:
  - ➢ Participant, his/her spouse or a dependent who is/was diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a CDC approved test
  - ➢ Participant who, due to such virus or disease, suffers adverse financial consequences because of being quarantined, furloughed, laid off or having his/her work hours reduced, or being unable to work due to lack of child care, or as a result of the closing or reduction of hours with respect to a business owned or operated by the individual, or other factors as determined by the Secretary of the Treasury (or the Secretary’s delegate)
- Participants must certify they are qualified individuals and a plan administrator can rely solely on that certification

Coronavirus-Related Distributions

What Are The Requirements?

- CRDs must be distributed on and after January 1, 2020 and before December 31, 2020
- Maximum amount which can be distributed across all plans of the controlled group is $100,000
  - ➢ Withdrawal can be in one lump sum, or in multiple payments
- 10% penalty tax (72(t) tax) for CRDs prior to age 59½ does not apply
- Different withholding and rollover rules apply to CRDs
  - ➢ Not subject to mandatory 20% Federal income tax withholding rules
  - ➢ Subject to 10% optional withholding rules and withholding notice
  - ➢ No requirement to provide the 402(f) notice
  - ➢ Withdrawal cannot be directly rolled over to another plan or IRA

Coronavirus-Related Distributions

What Are The Repayment and Tax Considerations?

- CRD can be repaid within three years
  - Three- year period begins on the date after the date the CRD is received
- Only the amount received (no earnings) can be paid back
  - Can be paid back in one lump sum or in multiple payments
  - Can be paid to an “eligible plan” in which the participant is a “beneficiary”, and which accepts rollovers
- Repayments to plans are treated as timely rollovers
- Individual may spread the payment of the income taxes on the CRD over three years (to the extent not repaid), unless elected otherwise

Loan Rules

How Were The Loan Rules Affected?

- The CARES Act affects loans by increasing loan limits, and suspending repayment payments, but only for qualified individuals
- A qualified individual has the same meaning as that used to determine if an individual is eligible to take a CRD

Increased Loan Limits

- The CARES Act increases the current limits for loans from $50,000 to $100,000 and the 50% of vested account limit to 100% of vested account
- The increased loan limits apply only for limited period - loans taken on or after March 27th (i.e., date of enactment of the CARES Act) and no later than 180 days following date of enactment
- This provision appears to be an optional plan provision

Loan Rules

How Are Loan Repayments Affected?

Delayed Loan Repayments

- For a qualified individual, loan repayments due on or after March 27, 2020 through December 31, 2020 can be delayed for one-year from their original due date ("delay period")
- Rule applies to existing loans in good order on March 27, 2020, and loans taken after that date in 2020, with payment due dates in 2020
- Interest continues to accrue during the delay period and will be added to the outstanding loan
- The delay period can be added to the term of the loan

2020 RMD Waiver

What To Know

- CARES Act waives the requirement that a participant receive a required minimum distribution (RMD) in calendar year 2020
  - Includes RMD due by 04/01/2020, if not paid in 2019
- Waiver applies to RMDs from defined contribution plans such as 401(k), ESOP, profit-sharing, money purchase, 403(b) and governmental 457(b) plans
- Waiver, however, does not apply to RMDs from defined benefit pension plans and 457(b) plans of tax exempt organizations
- Calendar year 2020 is disregarded for purposes of determining a distribution within 5 years of a participant's death
- We expect further guidance from the IRS, like the RMD waiver provisions issued in 2009, to liberalize the rules for making indirect rollovers of amounts that were distributed as RMDs before enactment of the CARES Act

Other Important Things You Should Know

Plan Amendments

- Plan sponsors may begin operating their plans in accordance with the CARES Act immediately
- Deadline to amend retirement plans for any changes implemented under the CARES Act – generally the end of the first plan year beginning on or after January 1, 2022 (end of the first plan year beginning on or after January 1, 2024 for governmental plans)
- Terminating plans must be amended to reflect any provisions implemented prior to plan termination

Our Response & Changes We’re Making

Jack Barry, Vice President, Product Development

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Opt In

Both the coronavirus-related distribution and the loan increase provisions are **optional at the plan sponsor level**.

Deadline to amend plan for calendar year plan is December 31, 2022.

Our response

Plan Sponsor to work with John Hancock Benefits Consulting Group

- Letter of Direction sent to sponsors on Monday, April 6th
- We will track plans opting-in
- Plan provisions updated within required timeframe
- John Hancock will waive plan document update fees related to CARES Act changes

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Plan loan maximums

Current limits for loans increased from $50,000 to **$100,000** and the 50% of vested account limit to **100% of the vested account** for loans made between March 27 and September 23, 2020 for qualified individuals

Our response

Authorization

The plan sponsor must opt-in to make this available to participants

Self-certification

We will rely on participants to self-certify their eligibility

Systems & forms

- Systems have been updated to reflect new loan limits
- New forms available online
- COVID related loan origination fees will be waived on Open Architecture plans

Existing process can continue

Participants can always request a loan of up to $50,000 or 50% of their account balance in accordance with existing processes, if allowed by the plan, and within the plan's allowed number of loans

Plan loan repayment

For existing retirement plan loans with a due date between March 27, 2020 and December 31, 2020, qualifying participants may request a one-year extension to repay the loan.

Our response – 1 year extension

We will support the 12-month extension of loan repayments

No loans will be defaulted without the direction of the plan sponsor

Coronavirus Related Distributions (CRD)

Qualified individuals may withdraw up to $100,000 across all plans maintained by their employer.

- Withdrawal can be in one lump sum, or in multiple payments, must be made in 2020 no later than December 30.

Our response

Authorization

The plan sponsor must opt-in to make this available to participants

Self-certification

We will rely on participants to self-certify their eligibility

Systems & forms

Systems and forms have been updated to accommodate the new CRD withdrawal type.

Existing guidelines will be maintained

We will continue to follow all existing plan provisions related to distributions

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Coronavirus Related Distributions (CRD)

Qualified individuals may distribute up to $100,000 across all plans maintained by their employer.

- Withdrawal can be in one lump sum, or in multiple payments, must be made in 2020 by no later than December 30.

Our response

Tracking the $100,000 limit

It will be the participant's responsibility to track the $100,000 limit

Repayment

Will support. It will be the participant's responsibility to track repayment.

We are waiving our hardship withdrawal fees, including fees related to CRDs

RMD Waiver

The CARES Act waives the RMD requirement in 2020

- RMDs from DC, 401(K), employee stock ownership plans, profit-sharing, money purchase, 403(b), governmental 457(b) and IRAs (including inherited IRAs) are waived
- The waiver does not apply to RMDs from DB plans

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Our response

- We will continue to process existing RMDs that participants are currently setup to automatically receive **unless a participant requests** that John Hancock not process their 2020 RMD
- We are prepared to support all requested waivers of existing RMDs and will accept instruction directly from participants or plan sponsor
- We won't setup any new RMDs unless requested to do so by the participant and after communicating to participants that a 2020 RMD is not required

Q&A

Important Notes

The content of this presentation is for general information only and is believed to be accurate and reliable as of the presentation date, but may be subject to change. It is not intended to provide investment, tax, or legal advice (unless otherwise indicated). Please consult your own independent advisor as to any investment, tax, or legal statements made herein.

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