Milliman

CARES Act Summary

March 27, 2020

Following is a summary of the retirement plan provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Defined contribution (DC) plan provisions

Distribution and loan relief to "qualified individuals," meaning either:

Participants (or their spouses or dependents) who have been diagnosed with coronavirus disease (SARS-CoV-2 or COVID-19) or

Participants who have experienced adverse financial consequences due to the virus resulting from:

- being quarantined, furloughed, or laid off;
- having their work hours reduced;
- being unable to work due to lack of child care; or
- closing or reducing hours of a business they owned or operated.

2020 tax-favored retirement plan "coronavirus-related distributions" to "qualified individuals"	Relaxed loan rules for "qualified individuals"
• Permits in-service hardship distributions up to $100,000 during the period January 1, 2020 to December 31, 2020, even if such amounts are not otherwise distributable from the plan. • Waives the 10% early distribution penalty. • 20% federal income tax withholding can be ignored. • The distribution is exempt from the IRC Section 402(f) notice requirements (rollover rights explanation). • The distribution can be repaid to the plan within 3 years to gain tax-free rollover treatment (no details yet on accomplishing this repayment). • Must certify that they are a "qualified individual." • Qualified individuals will be able to recognize personal income for federal taxes attributable to the distribution over the 3-year period beginning with the year the distribution would otherwise be taxable, effectively spreading taxation over 3 taxable years. State taxation of such distributions is unclear at this time.	**Increased limit on plan loans:** Applies to loans made during the 180-day period beginning on enactment of the CARES Act Permits plan loans up to the lesser of: • 100% of the participant's vested account balance (double the normal 50% limit), or • $100,000 (double the normal $50,000 limit) **Delay of plan loan repayments:** Applies to existing or new loans on or after enactment of the CARES Act. Permits a delay of up to one (1) year for making loan repayments with due dates that fall between date of enactment of the CARES Act through December 31, 2020. Any subsequent repayments will be adjusted to reflect the delay in the due date and any interest accrued during the delay.

Required minimum distributions (RMDs) for 2020 are waived for profit sharing, money purchase, 401(k), 403(b) and governmental 457(b) plans. Applies to all RMDs due during 2020, including 2019 initial RMDs due by April 1, 2020.

- **2020 eligible rollover treatment.** If any portion of a distribution made during 2020 would have been treated as a RMD absent this temporary waiver, it is eligible for rollover. However, the 20% federal income tax withholding can be ignored and the distribution is exempt from the IRC Section 402(f) notice requirements (rollover rights explanation).

Single employer defined benefit (DB) plan provisions

All single-employer funding obligations due during calendar year 2020 can be delayed until January 1, 2021. Accrued interest must be added to the delayed payment(s). There is no distinction to which plan year the DB plan contributions are due.

A plan sponsor may elect to use the single employer DB plan's funded status for the 2019 plan year to determine if benefit restrictions must be administered. Benefit restrictions prevent the plan sponsor from paying "accelerated forms of distribution" such as lump sums.

The CARES Act is silent on RMDs for defined benefit pension plans.

Plan compliance / federal forms and notice distributions

Plan amendments deadline for adopting any of the relief provided under the Act would be no earlier than the last day of the first plan year beginning on or after January 1, 2022 (January 1, 2024 for governmental plans).

The Department of Labor will have additional authority to postpone certain deadlines that apply to ERISA-covered plans for a public emergency declared by the Department of Health and Human Services, which would include the current public emergency for COVID-19. We believe this will apply to ERISA compliance deadlines, such as Form 5500, Annual funding notice, quarterly (or other periodic) participant statements, and others. This is not an exhaustive list. We note that it is unclear if the postponement authority for DOL extends to Treasury/IRS for compliance deadlines under IRS authority.

Milliman is among the world's largest independent providers of benefits administration, actuarial and consulting services. Founded in 1947, the firm includes consulting practices in employee benefits, healthcare, property & casualty insurance, and life insurance and financial services in major cities around the globe.

milliman.com