STINSON

News & Insights

# CARES Act Provides Much Needed Retirement Plan-Related Relief for Individuals and Employers Impacted by COVID-19

Alert
03.28.2020

By Audrey Fenske, Lisa Rippey, Nick Bertron and Sam Butler

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which addresses the public economic and health crisis related to the 2019 novel coronavirus (COVID-19). The CARES Act includes relief to individuals and employers with retirement plans. Below is a high-level summary of the retirement plan-related relief provisions contained in the CARES Act.

## DELAY OF REQUIRED SINGLE EMPLOYER PENSION PLAN CONTRIBUTIONS

Under Section 3608 of the CARES Act, any minimum contributions to defined benefit pension plans otherwise required to be made during calendar year 2020 may be delayed until January 1, 2021. However, the CARES Act provision requires that interest, accruing from the original required contribution date until the date the payment is made, must be contributed in addition to the delayed contributions. The applicable interest rate is the rate in effect for the plan year that includes the date the payment is actually made.

## RESTRICTIONS BASED ON SINGLE EMPLOYER PENSION PLAN FUNDING STATUS

In determining benefit restrictions under Code Section 436 (which limits benefit payments, improvements and accruals, among other things, based on the funding status of the plan), for any plan year that includes calendar year 2020, Section 3608 of the CARES Act allows a single employer pension plan to use the funding status of the plan as of the last plan year ending prior to January 1, 2020.

## CARES Act Provides Much Needed Retirement Plan-Related Relief for Individuals and Employers Impacted by COVID-19

### TEMPORARY WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS FOR DEFINED CONTRIBUTION PLANS AND IRAS

Section 2203 of the CARES Act waives the required minimum distribution (RMD) rules for certain defined contribution plans (401(a), 403(a), 403(b), and governmental 457(b) plans) and IRAs for the 2020 calendar year. The waiver also applies to RMDs for the 2019 distribution calendar year for individuals who have a required beginning date in 2020 (i.e., April 1, 2020). Absent this relief, the RMDs required for these individuals during the 2020 calendar year would have been based on historic account balances that may have since been severely devalued due to recent declines in the stock market during the COVID-19 pandemic.

### PENALTY FREE COVID-19-RELATED DISTRIBUTION

Section 2202 of the CARES Act allows participants to receive up to a $100,000 distribution from qualified retirement plans (401(a) plans, 403(b) plans and IRAs) for COVID-19-related purposes without a 10 percent additional tax for premature distribution, if the distribution is made during the 2020 calendar year (COVID-19 Distribution). A participant may repay the COVID-19 Distribution to an eligible retirement plan within a three-year period beginning on the day after the distribution is made without regard to that year's contribution caps, and to the extent that the participant does not repay the COVID-19 Distribution, the income inclusion associated with the COVID-19 Distribution may be included ratably over three taxable years. The COVID-19 Distribution provision applies to an individual:

- Who has been diagnosed with COVID-19
- Whose spouse or dependent has been diagnosed with COVID-19
- Who has experienced adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, or being unable to work due to lack of child care due to COVID-19

A plan administrator may rely on the participant's certification that the participant satisfies the conditions to receive a COVID-19 Distribution. The $100,000 limit applies on an aggregate basis to all plans treated as maintained by a single employer under the qualified plan rules.

### INCREASED LIMIT ON LOANS FROM QUALIFIED PLANS

Participants who qualify for a COVID-19 Distribution as described above also qualify for additional plan loan relief under Section 2202 of the CARES Act. The CARES Act increases the maximum plan loan amount from qualified retirement accounts from $50,000 to $100,000 for a period of 180 days after the enactment of the CARES Act. It also increases the percentage test limit for loans from 50 percent of the value of the participant's benefit, to the value of the participant's entire benefit under the qualified plan. Additionally, plan loan payments may be extended for one year, if the payment due date is after the CARES Act was enacted, but before the end of 2020. Subsequent loan repayments, as well as interest which accrues during the plan loan extension, must be readjusted to reflect the extension in the plan loan's due date. The five-year limit for plan loan repayment is to be applied disregarding some or all of the period of delay, but further clarification is needed.

## CONTACTS

Nicholas Bertron

Samuel Butler, IV

Audrey A. Fenske

Lisa M. Rippey

## RELATED CAPABILITIES

Employee Benefits

Labor, Employment & Benefits