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# Coronavirus **A**id, **R**elief and **E**conomic **S**ecurity Act

## ***Frequently Asked Questions***

As a result of the ongoing COVID-19 pandemic, the government passed the Coronavirus, Aid, Relief and Economics Security Act (CARES) on March 27, 2020. CARES made significant changes to retirement plans that have impacted plan participants and plan sponsors. Actuaries Unlimited, Inc. has created a FAQ sheet to help you better understand these changes. This is based on our current understanding of the CARES Act.

### ***What provisions in my retirement plan have been impacted by the CARES Act?***

The four main plan provisions that CARES Act changes are:

- a. Coronavirus Related Distributions “CRD”
- b. Participant Loans
- c. Required Minimum Distributions “RMD” (for Defined Contribution Plans only)
- d. Extended Funding Deadline (for Defined Benefit and Cash Balance Plans)

### ***Do I have to amend my plan to allow for these changes now?***

You can start utilizing these provisions immediately. However, you will need to formally amend your plan to allow for these changes within the next two to three years. You are able to choose which provisions you would like your plan to adopt and do not have to adopt all provisions.

### ***What is a Coronavirus Related Distribution “CRD”?***

This is a distribution from a retirement plan in 2020 to a “Qualified Individual”. A Qualified Individual is:

An individual diagnosed with COVID-19, or someone whose spouse or dependent has been diagnosed as having COVID-19.

An individual who has suffered adverse financial conditions due to COVID-19 such as a furlough from work, laid off, reduction of hours, unable to work due to lack of childcare, loss of business, etc.

### ***How do I verify if a plan participant is a Qualified Individual?***

You may rely on the Qualified Individual’s certification that they are eligible.

### ***What is the maximum CRD amount allowed?***

A CRD may be up to \$100,000 and must be received between January 1, 2020 and December 31, 2020.

### ***Is the Qualified Individual taxed on the CRD?***

Yes. However, the Qualified Individual may choose to pay back the distribution to the plan, IRA or another qualified plan within 3 years of receiving the distribution. If the CRD is paid back, then there is no tax due on this money. You may also spread the income tax payment over a 3 year period (to the extent the distribution is not repaid). We suggest consulting with your tax advisor to discuss the tax consequences resulting from a CRD.

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***Will the participant be required to pay any early distribution penalties for a CRD if they are under 59 ½?***

The Federal 10% pre-retirement early distribution penalty has been waived. The State pre-retirement early distribution penalty has not been waived and still applies, depending on the State of residence.

***What are the tax withholding requirements for a CRD?***

The mandatory 20% Federal withholding requirement for cash distributions is automatically waived for a CRD. If the Qualified Individual also chooses to waive the 10% voluntary withholding requirement for the CRD they will need to complete a Form W-4P.

***What changes did the CARES Act make to Participant Loans?***

If loans are allowed by the plan, the Qualified Individual can now take the lesser of \$100,000 or 100% of their vested account balance. If the participant has a current outstanding loan, the maximum amount will be adjusted by their outstanding loan. This only applies for loans taken from March 27, 2020 to September 23, 2020.

***What if my plan doesn't currently allow for Plan Loans? Can I change my plan?***

Yes, you can amend your plan currently to allow for loans. In addition, your plan will need to be amended to include the higher CARES Act loan limits within the next two to three years.

***What changes have been made to loan repayments on outstanding loans?***

Subject to plan approval, scheduled participant loan repayments that are due from March 27, 2020 through December 31, 2020, may be delayed for up to one year for Qualified Individuals. The term of the loan can also be extended for up to one year. Interest will continue to accrue and loan payments will need to be adjusted to reflect the additional interest once payments resume.

***What has changed relative to Required Minimum Distributions (RMD's)?***

For the 2020 calendar year, RMD's from Defined Contribution Plans are waived. This includes 2019 RMD's that were due to be distributed by April 1, 2020. For participants that received their 2020 RMD from the plan after February 1, 2020 they will be allowed to roll the funds back into a qualified plan or IRA until July 15th to avoid taking the RMD as a taxable distribution for 2020.

RMD's from Defined Benefit Pension Plans and Cash Balance Plans are still required to be distributed in 2020.

***What if the Participant is a Qualified Individual with an RMD?***

If the participant is a Qualified Individual, then they have 3 years to return the RMD.

***Is there any relief for minimum funding requirements to Defined Benefit or Cash Balance Plans?***

Although there has been no relief of the minimum funding requirements, the IRS has extended the deadline to make your minimum required contribution to January 1, 2021. Be aware that the deduction deadline has not been extended and the minimum required contribution would need to be made by the time you file your tax return (with extension) to be deductible for 2019.

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