

2020 Actuaries Unlimited, Inc. Retirement Plan Webinar

The CARES Act and Other
Recent Developments

May 28, 2020

PRESENTED BY

E. Mark Fishman, MSPA, FCA, MAAA
Shareholder/Partner & Enrolled Actuary
ACTUARIES UNLIMITED, INC.
16030 Ventura Blvd, Suite 320
Encino, California 91436
(818) 325-8800 x1620
Mfishman@actuariesunlimited.com





E. Mark Fishman

Actuaries Unlimited, Inc. Shareholder/Partner

Enrolled Actuary

Member, American Society of Pension Professionals and Actuaries (MSPA)

Fellow, Conference of Consulting Actuaries (FCA)

Member, American Academy of Actuaries (MAAA)

California United Bank – Encino Branch Advisory Board – April 2013 to November 2014

Centre College Athletic Advisory Board – March 2019 to current

New Horizons Board of Directors – August 2019 to current

Mark is a principal contributor to AUI's professional relationships and has fostered the expansion of our client base through unmatched service to our clients and industry partners. With his Bachelor's degree from UCLA and Master's degree from Loyola Marymount University, both in Mathematics, Mark started with Actuaries Unlimited, Inc. in 1982 and has been a partner since June 1993 (for more than 26 years). Mark prides himself on developing strong professional relationships, being a creative actuary and producing the most competitive results in the business. In addition to running a successful consulting practice, Mark teaches actuarial classes for ASPPA and lectures for CPA and CFP Continuing Education Seminars and Conferences. When he is not fostering an industry-wide reputation as a go to expert in retirement plans, he enjoys attending sporting events, drinking wine and listening to the Beatles. Mark has two grown sons and lives in Sherman Oaks with his partner, Carrie.

The CARES Act

Highlights – The CARES Act

- I. What does CARES stand for?
- II. Effective Date and When to Amend the Plan
- III. Coronavirus – Related Distributions (“CRD”) – *Provides a new In-Service Distribution with less restrictions and more favorable tax treatment*
- IV. Participant Loan Relief – *Relaxes the qualified plan loan rules*
- V. Suspension of Required Minimum Distributions “RMD” – *Waives the RMD from DC Plans and IRA’s for 2020*

What Does CARES Stand For

Coronavirus

Aid

Relief and

Economic

Security

Effective Date and When to Amend the Plan

- Date of Enactment: March 27, 2020
- When to Amend the Plan: By the end of the 1st Plan Year beginning on or after 1/1/2022.
- For CY Plans, by 12/31/2022.
- Generally, for FY Plans, by the year ending in 2023. For example, for a FY that begins on 7/1 and ends on 6/30, must amend by 6/30/2023.

Coronavirus – Related Distributions “CRD”

- May withdraw up to \$100,000 between 1/1/20 and 12/30/20 (not 12/31/20).
- Must come from an IRA or eligible Defined Contribution Plan (not from DB, CB or MPP Plans). Old DB In-Service Distribution rules still apply (term. of employment or minimum age 59 ½).
- Distributions from all plans (including SIMPLE IRA's, SEP's and IRA's) are all aggregated for this \$100,000 limit. Reported on Form 1099-R.
- Penalty Free – 10% early withdrawal penalty (pre-59 ½) and 20% mandatory Federal withholding will not apply.
- Not available for rollover.
- Subject to 10% optional w/h rules and w/h notice can be waived on Form W-4P.

POLLING QUESTION #1

Coronavirus – Related Distributions “CRD”

- Qualified Individual “QI” (or spouse or dependent) must have been diagnosed with COVID-19 or the QI suffered adverse financial conditions due to COVID-19 (i.e., furlough, reduction in hours, unable to work due to childcare, loss of business, etc.).
- Can rely on certification by the Individual unless the Plan Administrator has knowledge to the contrary.
- Participant has 3 years from date of COVID-19 distribution to pay it back into the qualified retirement plan “QRP” (or any other plan or IRA that accepts rollovers). Will be taxable if not repaid back timely. Repayments are reported on Form 8915-E which is expected to be available before the end of 2020.
- Tax can be paid either in full in the year of distribution (2020) or ratably over a 3 year period (one-third in each year 2020, 2021 and 2022).
- Optional Plan Provision

POLLING QUESTION #2

Participant Loan Relief

- Participant Loans taken during the period 3/27/20 through 9/22/20 have been increased for QI's to the lesser of:
 - (i) \$100,000 (was \$50,000)
 - (ii) 100% of Participant's vested account balance (was 50%)
- Scheduled Loan repayments during the period 3/27/20 through 12/31/20 from existing or new Participant loans may be delayed for up to 1 year for qualifying employees. Interest continues to accrue during the period and will be added to the outstanding loan.
- Plan can extend the term of the loan for up to 1 year.
- Your Plan must allow for Participant Loans.

Which is better: A CRL or a CRD?

Why a CRL is Better:

1. The loan will be repaid and available upon later retirement as originally intended.
2. No taxes paid if the loan is ultimately paid back
3. The loan repayment period may be as long as 5 years rather than the 3 year period as required for a Coronavirus-Related Distribution.
4. If the loan cannot be repaid back, then after the suspension period, the loan will be recognized as taxable income in 2021 thus avoiding taxation in 2020.

Which is Better: A CRL or a CRD? (continued)

Why a CRD is Better:

1. If repayment of the loan will not be possible, then taking it as a distribution will spread the tax ratably over a 3 year period.
2. Then the taxes paid each year will be less than if it would be taxable income in one year.
3. By spreading the taxes over 3 years may keep the individual in a lower tax bracket for each of the 3 years thus reducing the amount of tax even more.
4. This treatment is not available after 2020, so it will not be an option in 2021.
5. If a CRD can be paid back within the 3 year period, then it will not be taxable and any taxes already paid can be refunded.

Suspension of Required Minimum Distributions “RMD”

- RMD’s required to be paid in 2020 are now waived.
- If an RMD has already been received in 2020, it can be rolled over to an IRA or back to the plan to avoid taxation if made within 60 days following the distribution.
- RMD’s received in 2019 are not eligible for the waiver.
- Applicable to all types of DC Plans such as a 401(k) Plan, ESOP, PS Plan, MPP Plan, 403(b) Plan, governmental 457(b) Plan and IRA’s.
- Does not apply to DB/CB Plans or 457(b) Plans of tax-exempt organizations.
- If you are a QI, you will have 3 years to repay the RMD if received after 2/1/2020.

Other Recent Developments

Other Recent Developments

- Minimum funding requirements for DB Plans due in 2020 can be delayed to 1/1/2021. Accrued interest will apply.
- DB Plans can offer a CRD but such withdrawal will be unavailable to an Active Participant prior to age 59 ½.
- Under IRS Notice 2020-23 released April 9th, the IRS Form 5500's that are due on or after April 1, 2020, and before July 15, 2020 will now have until July 15th to file. This is good news for PY's ending 6/30/19, 7/31/19 and 8/31/19.

Q & A ?

E. Mark Fishman, MSPA, FCA, MAAA
Enrolled Actuary
Actuaries Unlimited, Inc.
16030 Ventura Blvd., Suite 320
Encino, CA 91436
Tel: (818) 325-8800
Email: Mfishman@actuariesunlimited.com