Principal Compliance News

Keeping you informed of news that may impact your retirement program

March 2020

CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020. The $2 trillion stimulus law includes direct payments to taxpayers, unemployment benefits, and assistance for businesses in distress. Highlighted below are the changes that may impact retirement plans and Individual Retirement Accounts (IRAs).

Distributions

The CARES Act allows for a new coronavirus-related distribution type from an employer-sponsored 401(k), 403(b), or governmental 457(b) retirement plan or IRA, which is similar to the relief typically provided for natural disasters.

Key provisions include:

- The maximum amount available to withdraw is $100,000 per participant, across all plans of a controlled group.
- Participants may be permitted to recontribute the amount within 3 years without regard to contribution limits.
- The mandatory 20% withholding and the requirement to provide a 402(f) notice is waived. Standard federal withholding is 10% unless the participant opts out by completing a Form W-4P.
- The withdrawal is not subject to the 10% additional income tax for early distributions.
- Income attributable to the distribution can be spread out over three years for tax purposes.

In order to qualify, distributions must be made before December 31, 2020 to:

- A participant, their spouse or dependent diagnosed by a test approved by the Centers for Disease Control and Prevention (CDC) with coronavirus or
- A participant who experiences adverse financial consequences by results of the virus, including loss of wages.

The plan administrator of an eligible retirement plan may rely on an employee's certification that the employee satisfies the conditions.

Plan Loans

- IRS plan loan limits for participants requesting new loans have been increased to 100% of vested account balance*, up to $100,000, for the 180 days following the date of enactment.
- Plan loan payments due between the date of enactment and 12/31/2020 are delayed for one year, and this same time period may be disregarded from the loan's term. Subsequent payment due dates will also be adjusted accordingly, and interest will continue to accrue during the delay period.
- In order to qualify, participants must certify they have experienced specific adverse financial consequences from the coronavirus pandemic or they, their spouse or dependent have been diagnosed with coronavirus by a test approved by the CDC.

* Additional guidance from the Department of Labor regarding their separate 50% vested account balance limit on plan loans is expected.

Required Minimum Distributions (RMDs)

- RMDs for defined contribution plans and IRAs have been waived for 2020. The waiver also includes 2019 RMDs due by April 1, 2020 for those who have not yet received their first distribution if they turned 70 ½ in 2019.
- No waiver is available for defined benefit (DB) plans.

DB Funding

- All single-employer minimum required contributions, including quarterly contributions due during the 2020 calendar year may be extended until January 1, 2021 with interest for the deferred contributions.

- Currently for ERISA plans, restrictions may apply when a plan's funding status goes below certain levels. This is also referred to as the Adjusted Funding Target Attainment Percentage (AFTAP) level. Under the CARES Act, a plan sponsor may elect to apply the plan's funded status for the last plan year that ended before January 1, 2020 in determining benefit restrictions for plan years which include calendar year 2020.

Plans that adopt the coronavirus-related distributions, loan provisions, and/or RMD waiver must be in place by the end of the 2022 plan year for private sector plans and by the end of the 2024 plan year for governmental plans.

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