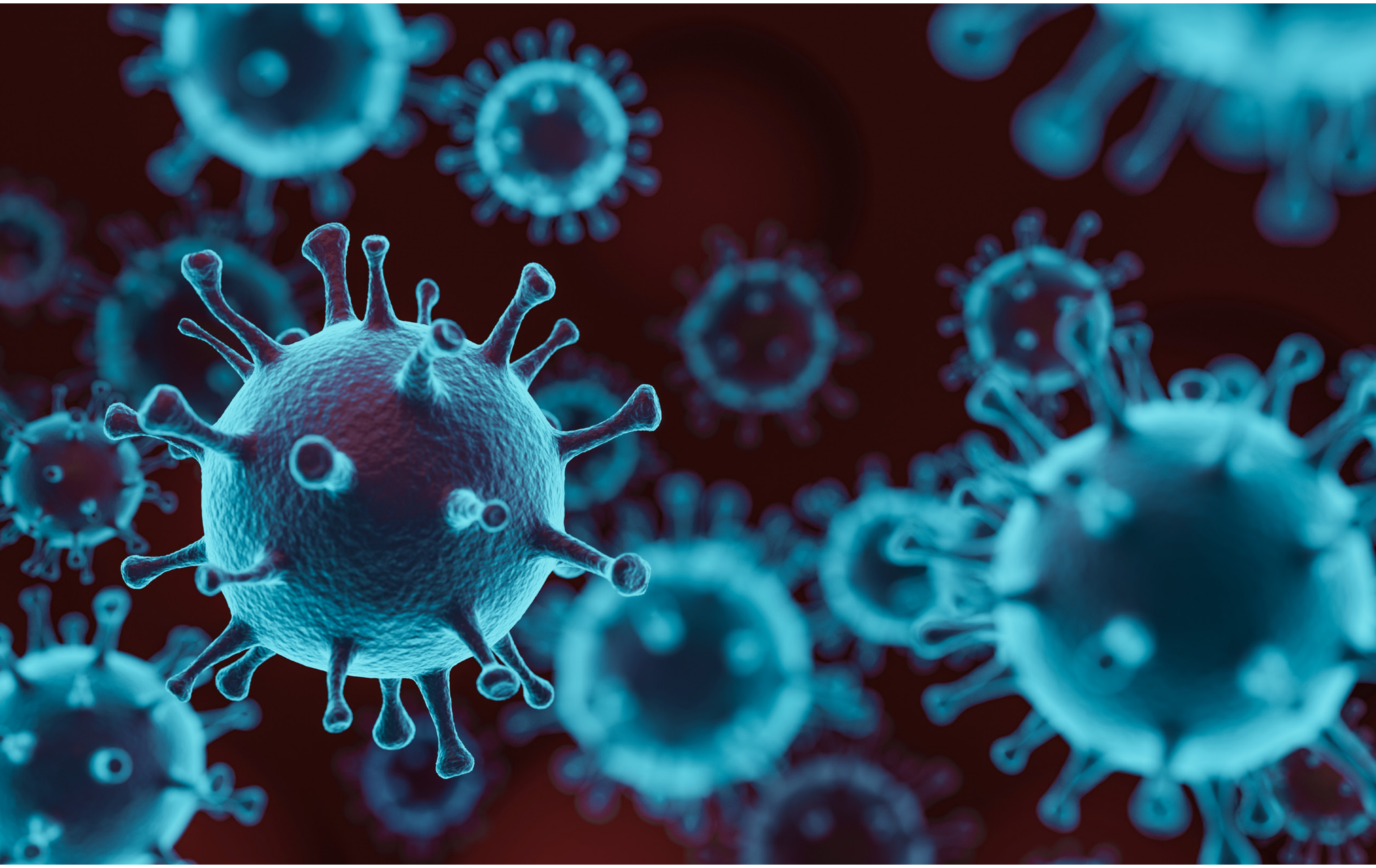
COVID-19:
The Impact on Retirement Plans



Highlights:

- Impacts to both defined benefit plans and defined contribution plans
- Potential options for your organization to minimize effects to your business
- Legislative updates from the CARES Act
- Important considerations and actions to take next

Information updated as of April 6, 2020

What began as a viral outbreak in China has come around the globe and arrived in our states, counties and cities. As COVID-19 continues to impact the stock market and organizations around the world, it is important to consider how recent market fluctuations may affect your retirement plan as well as some options you may have to minimize these effects on your business.

Defined Benefit Plans

Defined Benefit Plan Freezes

Defined benefit and cash balance plans are subject to minimum funding requirements, and the investment risk is on the plan sponsor, meaning that investment returns may have an impact on required contributions from year to year. A plan can be amended to lower or freeze future benefits to participants, but the plan sponsor may still have a required contribution due to investment experience.

If you sponsor a defined benefit or cash balance plan, you may have a larger than anticipated contribution and may want to consider freezing the plan's benefit formula now to minimize this.

In light of the current economic environment, many plan sponsors may not be in a position to continue the ongoing level of contributions they have made in the past and may want to consider freezing their plan's benefit formula to minimize upcoming contribution requirements.

Note: Freezing the plan's benefit formula will minimize future contributions, but contributions required for a prior year cannot be eliminated.

Late Defined Benefit Contributions

Some plans may be required to make quarterly contributions throughout the year based on their recent funded status. Failure to make these contributions in a timely manner will result in additional interest charges, increasing the amount necessary to meet annual funding requirements, and may result in additional reporting and notice requirements.

Additionally, failure to make the plan's minimum required contribution by the final contribution deadline will result in an excise tax paid to the IRS equal to 10% of the missed contribution for each year until the missed payment is corrected. This may also result in additional reporting and notice requirements. Some plans may be subject to a lien on company assets.

Recent legislation in response to COVID-19 provides relief on the funding deadline for defined benefit plans. The deadline for all required contributions due in calendar year 2020 has been extended to January 1, 2021.

Note: Contributions are charged interest through the date of deposit, so delaying a contribution will result in an increased interest charge.

The coronavirus (COVID-19) and recent market swings have grabbed headlines around the world. We are confronted with a constantly changing situation, but you may have options to help minimize these effects on your business.

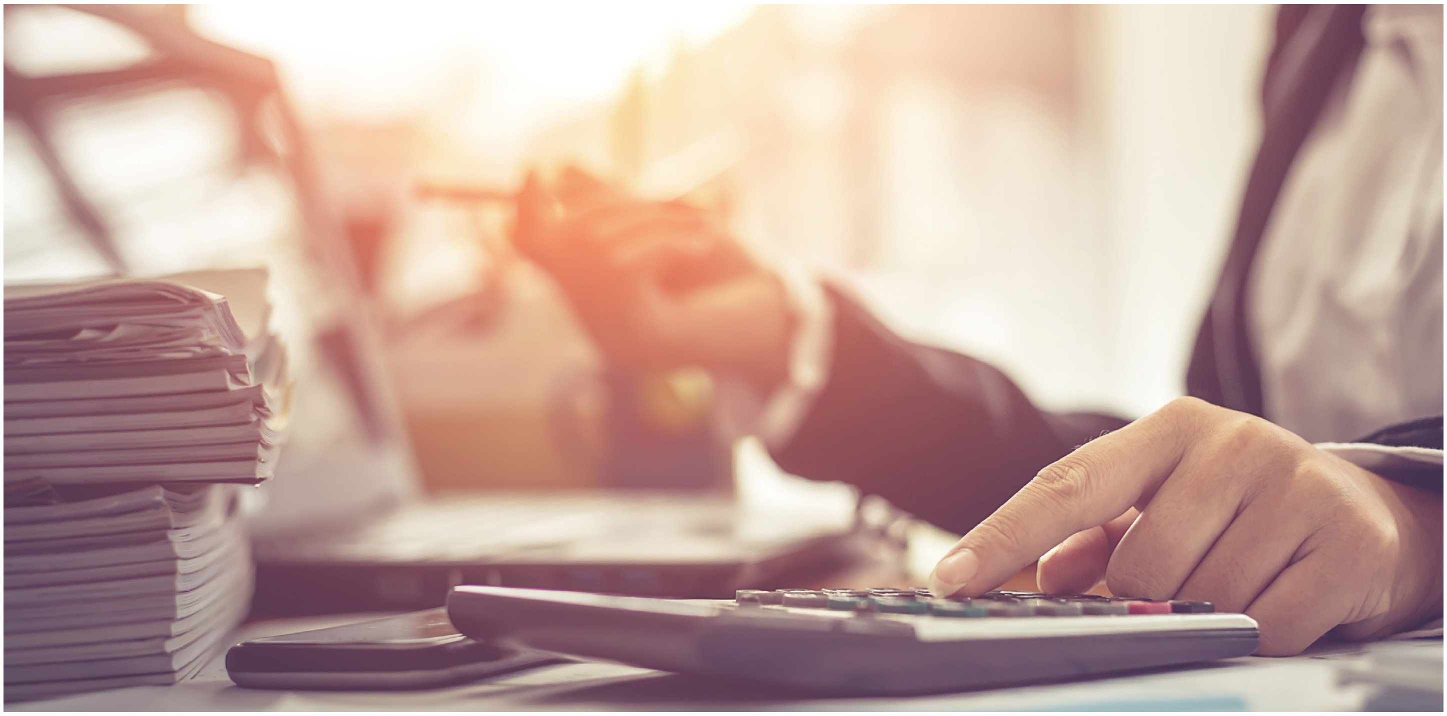
Defined Contribution Plans

Pooled Plan Valuations

While most plans provide individual investment accounts for each participant, some plans utilize one pooled investment account and all participants share in the earnings or losses of this pooled account calculated periodically, often as of the end of each year. In this case, consider a situation where a distribution request was recently submitted for one of your plan participants. When a participant takes a distribution, no updated earnings or losses are allocated to that participant after the most recent valuation date. Their distribution is based directly on the value of their account at the end of the most recently completed valuation period. As an example, for a plan year that ends in December, the most recently completed valuation may have been completed based on assets as of Dec. 31, 2019. If the actual value of the plan assets at the time of a distribution is significantly lower than the value as of the most recent valuation date, a participant taking a distribution may have a significant negative impact on the allocation of earnings/losses to the remaining participants.

As a plan sponsor, you may have the option to request an interim valuation. This means that a valuation would be performed from the beginning of the valuation period through a more current date. The interim valuation would allocate any earnings or losses to all participants of the plan through the designated interim end date. Therefore, all participants would receive their share of current earnings or losses prior to the distribution being processed.

If your plan is invested in a pooled account, it is encouraged that you review the circumstances with your financial advisor to consider whether this approach is appropriate for your organization. Consider the amount of the distribution, ensuring that distributions for highly compensated employees and non-highly compensated employees are subject to the same rules, past interim valuation practices, and the performance of your plan since the last valuation.



Safe Harbor Contributions

Many retirement plans provide for safe harbor contributions to be made on behalf of employees. In these instances, generally, safe harbor contributions are required to be made to a plan once a safe harbor notice has been provided to employees. In certain circumstances, however, plan sponsors can eliminate their safe harbor contribution requirement for the current year. There are several conditions that need to be met:

- The plan sponsor must be operating at an economic loss, assuming the safe harbor notice did not include language that plan sponsor may reduce or suspend the contribution for the plan year.
- The plan must be amended to suspend the contribution and to reflect that 401(k) and matching contributions will be subject to applicable testing requirements for the year.
- Safe harbor contributions must be made for the portion of the year prior to the amendment.
- Participants must receive a notice stating that the contribution will be suspended and permit them to change their deferral election.

Note: Contributions required for a prior year cannot be eliminated.

Top-heavy plans are generally required to make a minimum "top-heavy contribution," often equal to 3% of participant compensation. Plans that only make safe harbor contributions are exempt from this requirement. In some situations, suspension of safe harbor contributions may actually result in an increased contribution requirement.

Fixed Match or Non-elective Contributions

Retirement plans that include a fixed match or non-elective contribution (profit-sharing) formula may be modified to suspend contributions prospectively. If the plan has a fixed contribution and requires participants to work a certain number of hours or be employed on a certain date in order to receive these contributions, then the contribution may not be required at all for the current year if an amendment is executed prior to any participant meeting the hours/employment conditions.

For plans that provide a discretionary match or non-elective contribution that is not intended to satisfy any safe harbor requirements, options for suspending the contribution depend on the structure of the contribution and whether or not any contributions have already been made for the current year. If the plan document states that the contribution is calculated with each payroll period (typical for many matching formulas) and contributions have been made to date, they may be discontinued prospectively. If the match contribution is calculated based on total compensation for the plan year and contributions have already been made toward the current year's contribution, options include:

- Adjusting the contribution formula after year-end to conform to what has already been contributed
- In the case of a discretionary match, amending the plan to state that no match contributions will be made based on 401(k) deferrals and compensation as of a future date

There may be additional flexibility if no contributions have been made for the current year, if the calculation period is determined by the employer or if the plan requires participants to work a certain number of hours or be employed on a certain date in order to receive contributions.

In all cases, changes to the formula must be communicated to participants as soon as possible since this may impact their 401(k) deferral elections; in addition, participants should be given an opportunity to change their existing deferral elections within a reasonable period before and after the effective date of any changes to the match formula. If any contributions are made for the current year, these will be subject to the normal testing requirements, and coverage testing may also be required if certain employees had no access to match contributions during the year (for example, if someone first became eligible after match contributions were suspended).

Participant Loans

Relief has been provided with respect to participant loans from their retirement plan. The maximum loan limit has been doubled for individuals suffering a financial hardship related to COVID-19.

Previously, loans were limited to the lesser of 50% of their vested account balance or $50,000. This is now increased to the lesser of 100% of their vested account balance, or $100,000. Additionally, any loan payments due between now and December 31, 2020 may be delayed by one year, effectively deferring all future loan payments by an additional year.

In light of recent economic conditions, many plan sponsors are placing employees on furlough. It is important to note that any leave of absence may have an effect on any outstanding loans that participants may have taken from their plan. If your employees will be taking a leave of absence, the plan's loan policy, and/or other plan documents, should be reviewed to determine the effect of a leave of absence, both military and non-military.

Under a non-military leave of absence, many loan policies state that the loan repayment can be waived up to a year. Previously, future loan repayments would have been reamortized over the remaining life of the loan, but as mentioned above, these payments will now simply be deferred by up to a year, however, interest will continue to accrue during the deferral period and loan payments will need to be modified to account for the additional interest accrual.

General In-Service Provisions

Generally, accessibility to account balances held in retirement plans is highly restricted. Employees must meet a distributable event in order to access their retirement funds, which usually means separating from service due to termination, retirement, death or disability. In some cases, plans can offer earlier access to funds while the participant is still employed.

Plans may permit participant loans, hardship distributions or in-service distributions. As previously mentioned, loans may now be taken up to the lesser of 100% of the participant's account balance or $100,000. Hardship distributions can be made available to those participants who can demonstrate an immediate and heavy financial need (certain expenses are deemed to meet this requirement, while others are based on facts and circumstances). Hardship distribution provisions were also recently modified to provide relief. Early withdrawals from retirement plans or IRAs of up to $100,000 for individuals suffering a financial hardship related to COVID-19 (specific circumstances apply) will not be subject to the typical 10% early withdrawal penalty. Such distributions will be includable as income for tax purposes, but the tax liability may be spread ratable over 3 years. Individuals will also be permitted to repay the amount over 3 years without being subject to retirement plan contribution limits. Finally, plans may offer in-service distributions to employees who meet certain age and/or service requirements.

Plan sponsors are able to utilitize these new loan and hardship distributions immediately, ***even if their plan document does not currently allow for hardship distributions or loans***, provided the plan is amended no later than the last day of the first year beginning on or after January 1, 2022 (December 31, 2022 for calendar year plans).

Impacts to Both Plan Types

Partial Plan Terminations

Employers who have significant staff reduction or layoffs may become subject to IRS partial plan termination rules. In general, the IRS defines a partial plan termination as a 20% or greater decrease in plan participants during a 12-month period, normally the plan year. If a partial plan termination occurs, all affected participants who terminated during the 12-month period must become 100% vested. Partial plan termination rules are complex and subject to a facts and circumstances determination. If your organization is experiencing significant employee turnover, it is important to work with your plan administrator to understand how this affects you. It is anticipated that these rules will also be modified in the near future to provide clarity and relief to plan sponsors. Your retirement plan consultant can provide an update if and when this occurs.

Contribution Deadlines

In order to be deductible, employer contributions must generally be deposited prior to the extended due date of the company's tax return, including extensions. Federal tax return deadlines for 2019 tax years were recently extended to July 15. As a result, the deadline for contributions to be deposited to a plan are also extended.

CBIZ Retirement Plan Services is Here to Help

We know that you're concerned about the impacts of COVID-19 on your retirement plan and your employees, but CBIZ Retirement Plan Services is here to help guide you through these turbulent times.

For Defined Benefit Plans

If you are considering preparing an amendment freezing your plan's benefit formula or would like an estimate of your minimum required contribution prepared, please reach out to your CBIZ RPS consultant for further assistance.

For Defined Contribution Plans

If you are considering an interim valuation, making adjustments to your plan design to suspend employer contributions or changes to your loan policy to accomodate employees taking a leave of absence, please reach out to your CBIZ RPS consultant for further assistance.

Your Team is Here to Help

While the options outlined in this document may help to minimize effects to your business during this time, it is important to understand that these changes may impact your overall retirement plan. It is anticipated that some of the rules and options referenced may be modified in the future to provide additional relief to plan sponsors. Depending on the area, an experienced plan administrator, actuary or financial advisor can help guide you through these changes to make the decision that best supports your organization.

CBIZ Retirement Plan Services

Learn more at retirement.cbiz.com