QUESTCO

COVID-19 and Your Retirement Plan

A Questco update – April 13th, 2020

In an effort to support you and your employees through these uncertain times, we would like to share with you some information regarding the Coronavirus Aid Relief and Economic Security (CARES) Act that was signed into law on March 27th, 2020 as it relates to **your retirement plan**. This legislation provided under the CARES Act seeks to assist workers impacted by COVID-19 by increasing access to their retirement plan account savings. Some of these provisions are optional and may be adopted by the plan at the discretion of the plan sponsor/fiduciary.

Coronavirus - Related Plan Distributions

For qualified individuals, a participant may withdraw up to $100,000 from their retirement plan. These withdrawals can only be made on or after January 1st, 2020 and before December 31st, 2020. These distributions are exempt from the 10% penalty tax on premature distributions regardless of the participant's age. While the distribution is subject to ordinary income tax, the participant can choose to include one-third of the taxable amount in their income each year for three consecutive years in order to spread the tax burden over a longer period.

Coronavirus-related Plan Loan Requests and Repayments

Under the CARES Act, plan loans taken between March 27, 2020 and September 23, 2020, the maximum loan amount can be doubled from the lesser of $50,000 or 50% of the participant's vested account balance to the lesser of $100,000 or 100% of the vested account balance for loans to qualified participants.

The CARES Act also allows certain participants to suspend loan payments that were scheduled to occur between the effective date of the Act (March 27, 2020) and December 31, 2020. These repayments may be suspended for one year. When payments resume, the loan will be re-amortized to reflect the interest that accrued during the suspension period. All subsequent loan repayments will also be "backed up" a year so that participants won't be simultaneously paying the regularly scheduled payment and a payment that was postponed under CARES.

To qualify for the Coronavirus-related Distribution or the loan suspension, the participant must be a person who:

- Was diagnosed with SARS-CoV-2 or COVID-19 by a test approved by the Centers for Disease Control and Prevention.
- Whose spouse or dependent is so diagnosed by such a test.
- Who experiences adverse financial consequences as a result of:
    - Being quarantined.
    - Being laid off or furloughed or having work hours reduced due to the virus.
    - Being unable to work due to lack of childcare due to the virus.
    - Closing or reducing hours of a business owned or operated by the individual due to the virus.
    - Other factors as determined by the Secretary of the Treasury.

If you are **participating in Questco's Multiple Employer 401K plan** we have adopted the following provisions as allowed for under the CARES Act:

- Coronavirus related distributions are allowed penalty-free and can be repaid.
- Temporary maximum loan amounts may be increased up to $100,000.
- Loan repayment periods may be extended by one year.
- Required minimum distributions may be suspended.

If you are **participating in an alternative retirement savings program**, please reach out to your Third-Party Administrator or Plan Sponsor regarding potential provision changes to your Plan. Plans can be amended retroactively on or before the last day of the first plan year beginning on or after January 1, 2022.

In addition, under certain circumstances employers can consider reducing or eliminating matching contributions and/or profit-sharing contributions to help reduce plan funding requirements and manage cash flow. If you are participating in Questco's Multiple Employer 401(k) plan, please reach out to your retirement services specialists at 401k@questco.net to discuss options available to you. If you are participating in an alternative retirement savings program, please reach out to your Plan Sponsor regarding matching contribution changes. Please note that these changes could impact safe-harbor plan design.

As an employer, it is important you consider how employee status changes can impact retirement plan events. Generally, employees who have been furloughed or temporarily laid off are intended to be recalled back to work at some point in the future. "Terminated" employees are not expected to return to work and their employment is considered severed. From a retirement plan perspective, the ramifications between these classifications can be significant. Termination is a distributable event which means a true termination of employment can result in a participant having the right to receive a distribution of his or her account balance. Outstanding loans generally become payable upon termination of employment.

As always, Questco is here to serve our clients through these challenging times and encourage you to contact us with any questions or concerns.

-*Your Questco Service Team*