

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the \$2 trillion stimulus package that contains several provisions providing relief to single-employer defined benefit pension plans and defined contribution retirement plans, and sponsors of those plans. Below is a helpful guide to some of the main relief items that were included in the law.

Defined Benefit Pension Plans

Funding obligations: All single-employer funding obligations (including both current quarterly requirements and residual contributions from the prior year) that are due in 2020 are not required to be made until January 1, 2021. The amount due will be adjusted with interest from the original contribution due date using the plan’s effective rate for the year. Note that the relief is with respect to the funding requirements of Section 430 of the Internal Revenue Code. Therefore, plans which are not subject to those requirements, such as governmental plans and certain church plans, are not subject to this provision.

Benefit restrictions: A plan sponsor may elect to apply the plan’s adjusted funding target attainment percentage (“AFTAP”) for the last plan year ending before January 1, 2020, as the AFTAP for the plan year that includes calendar year 2020 in order to avoid benefit restrictions under Section 436 of the Internal Revenue Code. For certain underfunded plans, these restrictions can include curtailment of certain lump sum payments, prohibition of plan amendments, and elimination of benefit accruals. Plans that are not subject to Section 436 of the Internal Revenue Code, such as governmental plans and certain church plans, are not subject to this provision.

Document restatement extension: While not part of the CARES Act, the IRS has extended the April 30, 2020 deadline for employers to update and adopt defined benefit plan documents that use the volume-submitter format. The revised deadline is July 31, 2020.

Items Related to the Pension Benefit Guaranty Corporation (“PBGC”): The CARES Act does not offer any modification to insurance premiums under the PBGC program, either in amount or timing.

Certain Plan Distribution and Loan Modifications

Required Minimum Distributions (“RMD’s”): The CARES Act temporarily waives all RMD’s for 2020 for all types of defined contribution plans (including 401(k), 403(b), and governmental 457(b) plans) and IRAs. This includes RMD’s due in 2020 but attributable to 2019 (those with a required beginning date of April 1, 2020, because they turned 70½ during 2019). (Note, there is no waiver in the legislation for RMD’s from a defined benefit plan.)

Tax relief on distributions: For “Coronavirus-related distributions” that are taken during calendar year 2020, there is tax relief on distributions including exemptions from the 20% withholding requirement, up to applicable limits and from the 10% early withdrawal tax penalty. An employee must self-certify that they qualify for a “Coronavirus-related distribution”.

Loan Limitations: The maximum loan limit for “qualified individuals” is increased to the lesser of (1) \$100,000 (up from \$50,000); or (2) the greater of \$10,000 or 100% (up from 50%) of the value of the participant’s benefit, applicable to plan loans made during the 180-day period beginning March 27, 2020.

Coronavirus Advisory

Retirement Relief Provisions of the CARES Act

April 7, 2020



Loan Repayments: Participants with outstanding loans from a qualified plan and for payments that are due before December 31, 2020, the payments are delayed, with interest, for one year.

General

The CARES Act provides the Department of Labor with the ability to postpone certain employer reporting and disclosure deadlines under the Employee Retirement Income Security Act, for a defined period in the case of a public health emergency. As of the time of this writing, April 1, 2020, no filing deadlines have been postponed.

Note that it is necessary to adopt various relief provisions into the formal plan document in order for them to be effective. The deadline for private employer plans is no earlier than the last day of the first plan year beginning on or after January 1, 2022.

For more information on the CARES Act, or other retirement plan topics, contact Robert Grider at 336-291-1160 or RGrider@McGriffInsurance.com, or Dan Berry at 336-291-1143 or at Dan.Berry@McGriffInsurance.com.

The above information is intended as a general overview of the new law. It is not exhaustive or intended to serve as legal, tax or other financial advice. For this reason, you are advised to consult with your own attorney, CPA, and/or other qualified advisor regarding your specific situation.

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