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YOUR RETIREMENT PLAN OPTIONS: COVID-19

MAY 2020

Considering the current global COVID-19 crisis and the CARES Act signed into law on March 27, 2020, as well as existing law prior to the CARES Act, we offer our insights into options which could provide financial relief and flexibility – if desired and if needed – for employers who sponsor retirement plans and for employees who participate in those plans.

It's important for you, as a fiduciary, to carefully and prudently consider these options to determine if any are in the best interests of your plan participants. On one hand, some employees and their families may be experiencing very serious and immediate financial needs as a result of the COVID-19 crisis and its devastating effect on our economy. For those individuals, you can provide them with significant, perhaps life-changing, relief. On the other hand, if employees gain more access to their retirement accounts, some of them likely will suffer a negative impact on their future retirement security.

Which Options Are Best For My Team?

Do you think any of your employees have experienced adverse financial consequences due to COVID-19?
(e.g. being furloughed, laid off, experiencing a reduction in hours, or the individual, their spouse, or child being diagnosed with COVID-19)

yes

1. Give your employees the ability to self-certify as a QI*
2. Consider options for expanded distributions, loans, and/or hardships

no

Re-evaluate later in 2020

Does your plan allow loans?

yes

Consider adding option to suspend loan repayments in 2020 for QIs

no

No action needed

Do you have any participants who would be interested in an "In-Plan Roth Rollover" to take advantage of the down financial market?

yes

Consider adding an In-Plan Roth Rollover option

no

No action needed

*See page 4 for definition of QI

If you think your employees have experienced adverse financial consequences due to COVID-19, give your employees the ability to self-certify as a "QI"

What is a "QI"? (Qualified Individual)

Someone who meets any of the following criteria, per the CARES Act:

- Has been diagnosed with the coronavirus or coronavirus disease (COVID–19) by a test approved by the Centers for Disease Control and Prevention, OR
- Has a spouse or dependent who has been diagnosed with COVID-19, OR
- Has experienced adverse financial consequences due to the virus or disease as a result of:
  - being quarantined, or
  - being furloughed or laid off, or
  - having work hours reduced, or
  - being unable to work due to lack of child care, or
  - closing or reducing hours of a business owned or operated by the individual, or
  - other factors as determined by the Secretary of the Treasury (or the Secretary's delegate).

The individual is responsible for determining if they meet the definition of a Qualified Individual

The CARES Act and the IRS have specified it is the responsibility of the individual, not the employer, to make the determination as to whether the individual meets the definition of a Qualified Individual. This is an important determination for individual income tax purposes; therefore, we strongly recommend individuals consult with their tax advisors before making this determination.

It's appropriate that this determination is the responsibility of the individual employee because an employer won't necessarily know if an employee meets any part of the Qualified Individual definition. For example, you might not know if an employee's spouse or dependents have been diagnosed; you might not know if a salaried person is actually working fewer hours than before COVID-19; you might not know if someone has been laid off from a second job; and you might not know if someone has a side-business which has been affected.

If you think your employees have experienced adverse financial consequences due to COVID-19, consider adding options for expanded distributions, loans, and/or hardships

Expanded Distributions
(QIs Only)

Option to allow distribution payments through December 30, 2020 up to $100,000

- Option to modify limit (e.g. $10,000 per month)
- A QI can report any 2020 payment as taxable income over a 3 year period and repay any portion of the payment to the plan or to an IRA within 3 years to avoid income tax
- 10% early withdrawal penalty does not apply
- Mandatory 20% federal withholding at time of distribution does not apply

Expanded Loans
(QIs Only)

Option 1: Increase your plan's loan limit to $100,000 for loans made by September 22, 2020

- Option to modify limit (e.g. $90,000)
- QIs considering loans should be able to comfortably afford payments that will begin in 2021 because there might not be an option to default on the loan

Option 2: Allow suspension of existing loan repayments until 2021

- For existing and new loans, you may provide Qualified Individuals with the option to suspend their loan repayments until 2021 and to re-amortize their loan with a year added to their loan term. This is important whether you expand the loan limit or not

Expanded Hardships

Option to allow hardship withdrawals due to COVID-related losses

- This option can help employees who do not meet the definition of Qualified Individual, but have experienced adverse financial consequences; (e.g. loss of income in their family)

If your participants are interested in a creative strategy to take advantage of the down financial market, consider adding an In-Plan Roth Rollover Option

Considering the recent decline in financial markets and in the value of plan investments, this may be an opportune time to convert a portion of a retirement account from before-tax to after-tax Roth within the plan.

- There are no limits based on an individual's income or on the dollar amount available to convert.
- Neither the amount converted to a Roth balance nor the future investment growth on that balance will be taxed in the future (assuming the future distribution is "qualified"). Therefore, if an individual expects significant future investment growth and/or higher tax rates in the future, this may be an attractive time to consider an In-Plan Roth Rollover conversion.
- Income taxes are due outside of the plan upon conversion.
- Qualified distributions are those made after age 59 1/2 and after the 5th year following the initial Roth contribution.

Other options for your employees

Required Minimum Distribution (RMD) Payments are Waived in 2020

This option is currently in effect, signed into law with the CARES Act. You may still give RMD-eligible participants the option to continue receiving these payments.

Waive or Adjust Requirements for "Hours of Service"

If you have placed any employees on unpaid leave or reduced their hours, you may waive or adjust your plan requirements for "hours of service" in 2020; e.g. for eligibility, vesting, or allocation conditions on employer contributions.

Provide Flexibility for Terminated Employees with Balances

If you have terminated employees with account balances in your plan, you may provide them with options for new loans, loan repayments, and distributions.

Options available for the employer

Suspend or Reduce Employer Contributions and Delay Contribution Deposits Until After Year-End

If you have a Safe Harbor 401(k) feature, you must provide 30 days advance notice to your participants before changing your 2020 Safe Harbor contribution. In any case, though, it's a good communication practice to keep your employees informed of your intentions and abilities to continue making employer contributions.

Pay Plan Expenses from Plan Assets

This option allows you to share some plan expenses with your employees. This decision is an important one as a fiduciary to ensure all expenses paid by the plan are reasonable and appropriate.

Let's talk. We're here to help.

Email us at admin@bco.cc to schedule a time for a one-on-one consultation

Our team will oversee the process, we'll:

- **Provide you with guidance to help evaluate your options**
- **Handle all of the details to make it easy to implement these changes**
- **Communicate and educate your employees of the changes**

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