Let's take a closer look at the CARES Act

How changes affect your retirement plan and give your participants options

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) went into effect in late-March 2020. Many of the provisions of this new law are intended to provide relief to families and businesses during the novel coronavirus (COVID-19) pandemic.

We understand the pandemic has brought a number of uncertainties to your business. We're here to help explain some provisions of the legislation that affect your 401(k) or other retirement plan, and provide some guidance if you need to temporarily furlough or lay off some of your workforce.

CARES ACT PROVISIONS THAT MAY HELP YOUR PLAN PARTICIPANTS

There are three sections of the CARES Act that are important for you and your employees to understand regarding your retirement plan.

Hardship withdrawals

You're permitted—but not required—to allow hardship withdrawals due to COVID-19 for amounts up to the participant's vested balance or a maximum of $100,000.

To be eligible for a COVID-19 hardship:

- The participant, spouse, or dependent must have been diagnosed with COVID-19, or
- The participant must have experienced adverse financial consequences relating to COVID-19 (furlough, layoff, reduced hours, inability to work due to child care constraints, etc.).

This withdrawal will be subject to income taxes—spread over three taxable years—but won't be subject to the 10 percent additional tax that's typical for most distributions made prior to age 59 ½. The participant also has up to three years to rollover the distribution to an IRA or other retirement plan.

Higher loan limits

If your plan allows participants to take loans, you're permitted—but not required—to temporarily increase the typical loan limits to $100,000 or 100 percent of the vested account balance. This applies to COVID-19-related loans taken within 180 days of the CARES Act going into effect.

If you wish to temporarily increase your plan's loan limits due to COVID-19, you may need to contact your plan provider

to prepare an amendment to your plan's loan policy. Please note:

- Eligible participants are allowed a one-year suspension of any loan repayments that were due between March 27 and December 31, 2020.
- Even if your employees aren't eligible for a COVID-19-related loan, those on a leave of absence may be eligible for up to a one-year loan payment suspension. Refer to your plan document for more information.

Suspending 2020 required minimum distributions (RMDs)
The CARES Act suspends all 2020 RMDs. RMDs already paid in 2020 can be rolled over to an IRA or other qualified plan. Suspending RMDs is the only required provision from the CARES Act that your plan must enact.

TEMPORARY FURLOUGHS OR LAYOFFS

If your company is in a situation where you need to temporarily furlough or lay off employees, please read through these guidelines:

- A temporary layoff or furlough is considered a leave of absence (LOA), not a termination of employment. Termination of employment only occurs if there's no expectation the employee will ever work for the employer again.
- Employees who are on an unpaid LOA:
  - Are still employees and still eligible for in-service and hardship withdrawals.
  - May suspend loan repayments for up to one year—interest still accumulates on the loan, so when the suspension period is over, the loan must be re-amortized over the remaining term of the loan, meaning loan repayment amounts will increase.
- Employees who are laid off, furloughed, or on an LOA aren't terminated and aren't eligible for termination of employment benefits.
- You should report all furloughed employees to your plan provider so they can track any suspension periods for loans. Don't report these individuals as terminated.

If you have questions or wish to talk through some of these points with us, please contact us at 800-4SENTRY (800-473-6879), option 3. We're here to help you, your business, and your employees any way we can during this uncertain time.

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