COVID-19 Relief Aid for Plan Sponsors: What You Need to Know

COVID-19 relief package adds flexibility to employer-sponsored retirement plans

Company retirement plan sponsors can temporarily amend or freeze company contributions—with certain restrictions—as a means of creating some financial relief for their business under the recently passed Coronavirus Aid, Relief, and Economic Security (CARES) Act. But employers need to consult with their plan administrator as soon as possible, as well as communicate with affected plan participants regarding any changes

Kara Duckworth, Managing Director of Client Experience at Mercer Advisors, unpacked the details in her April 16 segment of an ongoing webinar series on the CARES Act. In addition to providing flexibility for plan sponsors, the CARES Act also expands retirement plan participants' access to their 401(k) and individual retirement account (IRA) balances to counter the economic impact of COVID-19. See our **Relief Act: Benefits for Retirement Accounts** to learn more about relief for individual retirement accounts.

Check out the highlights from Kara's presentation, along with answers to frequently asked questions, in the sections below. You can also replay all of our CARES Act webinars by visiting the **Mercer Advisors Resource Center**.

Please note, the relief programs are evolving quickly and adjusting to the current situation. The information in this guide is accurate as of April 16, 2020. The information that is provided in this guide is for information purposes and is not intended to replace tax or legal advice specific to your situation.

Overview

Passed on March 27, 2020, the CARES Act provides more than $2.2 trillion in financial benefits to U.S. companies and individuals. For retirement plan sponsors and participants specifically, the CARES Act provisions include:

- **Access to 401(k) savings.** Plan participants can borrow up to $100,000 or 100% of their vested 401(k) account balance, whichever is less. Repayment of new and existing 401(k) loans can be also be deferred up to one year.
- **Extended due date for or possible reduction in employer contributions.** Defined Benefit Plan (DBP) and Cash Balance Plan (CBP) sponsors may choose to freeze their plans. Freezing a plan requires adherence to certain time-sensitive requirements, so plan sponsors need to contact their plan administrator as soon as possible to determine if this is an option. Employers may also delay the funding of required contributions for 2020 until January 1, 2021.
- **Suspension of employer contributions.** Under certain conditions and with advance notice to plan participants, a plan sponsor may be able to suspend 401(k) matching and profit sharing if the business has experienced specific hardships due to COVID-19.
- **Partial plan termination.** This may be an option for plan sponsors whose business has experienced a significant workforce reduction.

Plan Participant 401(k) Loans	
What are the options for tapping my 401(k) account?	You can borrow up to $100,000 or 100% of your vested 401(k) account balance, whichever is less—up from the previous limit of $50,000 or 50% of the vested balance—under the CARES Act. Payments on an existing 401(k) loan that would have been due between March 27, 2020 and December 31, 2020 can be deferred for one year. In addition, the maturity date of new 401(k) loans initiated through September 23, 2020 can be deferred until December 31, 2021. Interest on the loan will continue to accrue during that period. Plan sponsors and participants should check with their 401(k) administrator to confirm any plan-specific requirements or restrictions.
Do I have to prove a hardship from COVID-19?	Plan participants must self-certify that they meet one of the following criteria: ▪ You, your spouse, or a dependent has been diagnosed with COVID-19 ▪ You, your spouse, or a dependent has experienced a direct financial impact due to COVID-19
As the plan sponsor, what are my obligations?	You can administer the higher 401(k) loan allowance and repayment deferral measures immediately. Relevant wording in your plan document must be amended to reflect these changes on or before the last day of the plan year that begins on or after January 1, 2022. So, if your 401(k) plan has a calendar year end of December 31, then your plan document has to be amended on or before December 31, 2022. Consult your plan administrator for specific details and requirements. In addition to updating their 401(k) plan documents, sponsors must also ensure their participants' loans don't go into default during the deferment period.
Employer Contributions to Plans	
What are the potential advantages of freezing my plan and deferring my required contributions?	By freezing your DBP or CBP, you could minimize the amounts that you must put into your plan for 2020—and potentially for subsequent years, if needed. While a freeze might not eliminate all of the funding requirements, it will serve to reduce your required contribution amount to the fullest extent possible. Freezing the plan now will give you the greatest flexibility on future funding.

What are the potential disadvantages?	Freezing your retirement plan might result in lower maximum deductible contributions for a short period of time. However, there might be no effect on the maximum amount that your plan can ultimately accumulate. In addition, you can reactivate your plan and make contributions up to 2 ½ months after the plan year end—which would be March 15, 2021 for plans with a December 31 year end. Other future consequences to freezing your specific plan depend on your company's unique situation, so you should consult your plan administrator before moving ahead.
What are the requirements to freeze my plan?	You need to amend your plan document and notify plan participants at least 15 days prior to the effective day of the freeze if you have fewer than 100 participants, or 45 days in advance if you have at least 100 participants. The effective freeze date must occur before your plan participants have worked 1,000 hours in the plan year—which is typically sometime in May or early June for full-time employees. Therefore, you need to contact your plan administrator as soon as possible.
Are there any direct costs involved?	Your plan administrator might charge a modest fee—usually a few hundred dollars—to prepare the amendment and freeze the plan. Even if you decide to reactivate the plan later this year, paying to amend your plan document could be worthwhile to give you peace of mind and flexibility.
What if I have a "safe harbor" retirement plan?	A safe harbor plan can only be suspended if its annual notice states that the plan sponsor is allowed to reduce or suspend safe harbor contributions during the plan year. This is commonly known as "Maybe Not" language. Suspending a safe harbor plan might also be allowed if your business is operating at an economic loss, but you must provide a 30-day notice to plan participants before those contributions are suspended. Safe harbor plan sponsors should also check with the administrator about whether a suspension could affect your required non-discrimination testing.

Partial Plan Terminations	
Under what conditions is a retirement plan considered to be terminated?	The guidelines may vary depending on your specific plan and economic situation. The industry standard is that if 20% or more of a plan sponsor's workforce has been involuntarily terminated, at least a partial plan termination may be permitted. In such a case, the plan would be required to fully vest all effective participants as of that point in time. If your business has incurred significant layoffs due to COVID-19, consult with the plan administrator about your options and the potential impact of a partial plan termination.

What to Do Next

Your plan administrator is the best source for advice on how to proceed with any changes related to the CARES Act. Also, talk with your financial advisor and tax preparer about other potential benefits you may be eligible to receive under the new legislation.

You can replay all of our webinars at the Mercer Advisors "Insights for Navigating Recent Events" **Resource Center**. Visit this site often for updates on the CARES Act and other COVID-19-related developments affecting the global financial markets.

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