

CARES Act – Retirement Plan Impacts

The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed on March 27, 2020, includes several provisions intended to loosen restrictions on and reduce the tax consequences of distributions and loans from retirement plans. Also included are rules waiving required minimum distributions from defined contribution plans for calendar year 2020.

IMPORTANT: Newport will begin processing coronavirus-related distributions from eligible defined contribution retirement plans starting April 6, 2020. If you do not want to permit these distributions from your plan, contact your Newport representative no later than April 5, 2020. See the Supplement for more information.

CORONAVIRUS-RELATED DISTRIBUTIONS

"Coronavirus-related distributions" may now be made from certain retirement plans. The distribution can be made whether or not the participant is otherwise eligible for a distribution under the terms of the plan.

A "coronavirus-related distribution" is any distribution made after January 1, 2020, and before December 31, 2020, to:

- An individual who is, or whose spouse or dependents are, diagnosed with the coronavirus or with coronavirus disease (COVID-19) by a test approved by the Centers for Disease Control and Prevention
- An individual who is financially harmed by the coronavirus or coronavirus disease as a result of (i) being laid off, furloughed, receiving reduced work hours, or quarantined; (ii) being unable to work because of a lack of child care; (iii) having to close or reduce the operating hours of a business owned or operated by the individual; or (iv) such other reasons as determined by the Secretary of the Treasury.

Coronavirus-related distributions are eligible for more favorable tax treatment than other distributions from the plan. Up to \$100,000 in coronavirus-related distributions, received by an individual in any one taxable year, are exempt from the 10% early payment penalty tax that usually applies to distributions taken by individuals under the age of 59-1/2.

Coronavirus-related distributions can be repaid in one or more installments within the three-year period beginning on the day after the date the distribution was made. Unless the individual elects otherwise, coronavirus-related distributions are included in income over the three-year period beginning with the taxable year in which the distribution was received. Coronavirus-related distributions are not treated as eligible rollover distributions—note that a plan is not required to: (1) offer a rollover option to the recipient, (2) provide a special tax notice before making the distribution, and (3) withhold 20% federal income tax from the distribution.

Plan Administrators can rely on an employee's certification that he/she meets the above requirements for purposes of determining whether a distribution is a coronavirus-related distribution.

What Plan Sponsors Need to Do:

Newport will automatically process coronavirus-related distributions for plan participants beginning on Monday, April 6, 2020. If you do NOT want to incorporate this feature in your plan, please contact your Newport representative prior to that date.

INCREASED LOAN LIMITS AND MANDATORY DEFERMENT OF LOAN PAYMENTS

For the 180-day period beginning on March 27, 2020, certain retirement plans may now allow qualified individuals to borrow up to the lesser of \$100,000 or 100% of their vested account balance. Additionally, if a qualified individual has a loan outstanding on or after March 27, 2020, the due date for any loan payment that is due between now and December 31, 2020, shall be delayed by one year. When payments resume, the loan schedule must reflect the extended due date of the deferred payments, including any interest accruing during the deferment.

Like coronavirus-related distributions, a "qualified individual" means:

- An individual who is, or whose spouse or dependents are, diagnosed with the coronavirus or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention
- An individual who is financially harmed by the coronavirus or coronavirus disease as a result of (i) being laid off, furloughed, receiving reduced work hours, or quarantined; (ii) being unable to work because of a lack of child care; (iii) having to close or reduce the operating hours of a business owned or operated by the individual; or (iv) such other reasons as determined by the Secretary of the Treasury.

Note that plans are not required to offer participant loans or the larger loans permitted under the CARES Act.

Unlike coronavirus-related distributions, CARES is silent on whether the Plan Administrator can rely on the employee's certification that he/she satisfies the above requirements for purposes of these loan provisions.

What Plan Sponsors Need to Do:

Newport will provide more details as information becomes available. If you do NOT have loans enabled in your plan already and would like to amend the plan to allow for loans, please contact your Newport representative.

WAIVER OF REQUIRED MINIMUM DISTRIBUTIONS (RMD) FROM DEFINED CONTRIBUTION PLANS FOR CALENDAR YEAR 2020

Minimum distributions are not required to be made in calendar year 2020 from defined contribution plans.

What Plan Sponsors Need to Do:

No immediate action is needed on the part of plan sponsors. Newport will be providing additional communication materials for RMD participants in the near future.



PLAN AMENDMENT

If a plan offers coronavirus-related distributions or is subject to the CARES Act loan provisions, it must be amended no later than the last day of the first plan year beginning on or after January 1, 2022 (January 1, 2024 for governmental plans), to reflect how the plan was operated.

What Plan Sponsors Need to Do:

The timely amendment of plan documents is ultimately the responsibility of the plan sponsor. Newport will provide further guidance for those utilizing a Newport-sponsored document. Plan sponsors with individually designed plans should discuss the content and timing of amendments with their document provider.

**Newport is here to help you and your plan participants understand the CARES Act.
Participant materials are in development and will be available soon.
Please contact your Newport representative with any questions.**

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