CARES Act FAQ

The Coronavirus, Aid, Relief and Economic Security (CARES) Act enacted on March 27, 2020 includes several key provisions that may positively benefit your retirement plan participants.

Please note that the changes now allowed due to the CARES Act are options that can be - but are not required to be - made available within a retirement plan. Employers may start using CARES Act retirement plan provisions immediately. If you, as a plan sponsor opt to utilize some or all of these provisions, you may do so immediately and amend the plan at a later time.

Below you will find additional information about these provisions now available to your plan.

CORONAVIRUS-RELATED DISTRIBUTIONS

The CARES Act allows for a new type of hardship distribution to be taken by individuals affected by COVID-19. This hardship reason has been classified as coronavirus-related distribution (CRD).

Who is eligible for a coronavirus-related distribution (CRD)?

To be eligible for a CRD, the participant, their spouse or dependent must have either been diagnosed with COVID-19 or the participant must have suffered adverse financial impact due to COVID-19 as a result of the participant, their spouse, or a member of the participant's household:

- being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19;
- being unable to work due to lack of childcare due to COVID-19;
- closing or reducing hours of a business that they own or operate due to COVID-19;
- having pay or self-employment income reduced due to COVID-19; or
- having a job offer rescinded or start date for a job delayed due to COVID-19.

What is the maximum CRD amount and when can it be taken?

Coronavirus-related distributions cannot exceed $100,000 per participant. Participants are eligible to take these special hardship distributions through December 31, 2020.

Are CRDs taxable?

Yes, these distributions are subject to income taxes. However, the law allows individuals to pay these taxes over a three-year period.

Does the 10% early withdrawal penalty apply to CRDs?

The 10% penalty is waived retroactively to withdrawals beginning on January 1, 2020 for participants who:

- Have been diagnosed with COVID-19
- Have a spouse or dependent diagnosed with COVID-19
- Due to COVID-19, experience adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, or being unable to work due to lack of child care, or other factors as determined by the Treasury Secretary

Can CRDs be repaid to the plan?

Yes. A participant who chooses to repay the distributions has three years to repay the amount into a qualified retirement plan. These repayments are not subject to annual retirement plan contribution limits.

What documentation is required to prove eligibility for a CRD?

There are no specific documentation requirements and participants may self-certify that they are eligible. As part of the online request process, participants will be asked to upload a signed certification, which will be submitted with their request.

How will I know if I can approve this type of Hardship Request?

As part of the online request process, participants will upload a signed certification. This certification will be provided to you during the approval process for your records.As long as the participant self certifies they are a "qualified individual" as defined by the CARES Act, you may approve the request.

REQUIRED MINIMUM DISTRIBUTIONS

Are required minimum distributions (RMDs) impacted by the CARES Act?

Yes. Retirees who would normally be required to take an RMD in 2020 will not be required to do so. This provision does not require that the participant be impacted by the coronavirus and is intended to allow people to avoid withdrawing funds from their retirement accounts during the stock market decline linked to COVID-19. Participants who already received an RMD in 2020 have the option to repay the distribution to the plan so long as this is done by August 31, 2020.

LOANS

IN ACCORDANCE WITH THE CARES ACT, THE CORONAVIRUS-RELATED LOAN PROVISIONS DESCRIBED BELOW EXPIRED ON SEPTEMBER 22, 2020.

Have there been changes to plan loan limits?

Yes. If allowed by the plan, the maximum loan amount available to a participant can be increased to the lesser of $100,000 or 100% of the participant's vested account balance. This is a change from the lesser of $50,000 or 50% of the participant's vested account balance.

Who is eligible for the increased loan limit?

To be eligible for a loan over and above the standard $50,000 or 50% of the vested account balance, the participant, their spouse or dependent must have either been diagnosed with COVID-19 or the participant must have suffered adverse financial impact due to COVID-19 as a result of the participant, their spouse, or a member of the participant's household:

- being quarantined, being furloughed or laid off, or having work hours reduced due to COVID-19;
- being unable to work due to lack of childcare due to COVID-19;
- closing or reducing hours of a business that they own or operate due to COVID-19;
- having pay or self-employment income reduced due to COVID-19; or
- having a job offer rescinded or start date for a job delayed due to COVID-19.

This increase applies to loans made on or before September 23, 2020 (180 days after enactment of the CARES Act).

What documentation is required to prove eligibility for a loan that exceeds $50,000 or 50% of the vested account balance?

There are no specific documentation requirements and participants may self-certify that they are eligible.

How will I know if I can approve this type of Loan?

As part of the online request process participants will be certifying that they are a "qualified individual" as defined by the CARES Act. The submission of the loan is all that is necessary for you to know that the participant made this self-certification and you can approve the loan under the CARES Act.

Are there any changes to the repayment terms for existing loans?

With plan approval, loan repayments due March 27, 2020 or later may be delayed for up to one year for qualifying employees. Interest will continue to accrue during this period. This option will be available through December 31, 2020. Each loan repayment that was due from March 27, 2020, through December 31, 2020 will be reamortized in January 2021. Interest accrued from the date of the loan suspension (for loans suspended after March 27) will be included in the reamortization. Additionally, the loan term will be extended for one year from the original term. The new payment obligation will be effective from January 2021 until the loan is paid off. However, if a participant begins to repay their loan prior to January of 2021, Sentinel will reamortize the loan at that the time payments begin.

AMENDING THE PLAN

Thankfully, plan amendments for adopting relief under the CARES Act are not due until the last day of the first plan year beginning on or after January 1, 2022. All of the provisions above may be utilized by your plan before this deadline. Please be assured Sentinel will work with you to ensure your plan document is in compliance with any change to operations due to the CARES Act relief provisions.