Coronavirus, Aid, Relief, and Economic Security (CARES) Act

FRANCIS Investment Counsel LLC

What Your Retirement Plan Committee Needs to Know

On March 27, 2020, the CARES Act was signed into law. This landmark bill contains numerous provisions affecting large corporations and small businesses alike, state and local governments, and individual workers. We write to inform you of the CARES Act provisions that directly impact the average retirement plan.

What Your Plan Committee Needs to Know:

Provisions Now Available to Retirement Plans:

- **OPTIONAL**: Enhanced Loans (available for the next 6 months – until September 23, 2020):
  - Increased limit: Lesser of $100,000 or 100% of vested account balance
  - Loan repayments can be delayed for up to one year
  - Outstanding loan payments from March 27, 2020, through December 31, 2020, can be postponed for one year and the due date can be adjusted by one year. Interest will continue to accrue.
- **OPTIONAL**: Coronavirus Related Distribution (CRD) (available until December 30, 2020):
  - In-service, $100,000 limit
  - No 10% early withdrawal tax penalty
  - Taxed over 3 years unless participant elects immediate taxation
  - Can be repaid over 3 years
- **Required Minimum Distributions** will be waived for 2020.

We recommend you carefully consider the pros and cons of these optional features before agreeing to add either or both of them to your plan. These provisions are available immediately, and your plan recordkeeper will be reaching out shortly, if they haven't already, to provide operational details.

Some Concerns:

As you consider whether to adopt either of the optional provisions of the CARES Act, we offer a few considerations. The first is an economic one. The general consensus is the government-required shut down of business is going to cause a recession that is very different than a recession caused by a normal business cycle. Accordingly, while this is expected to be a severe slowdown, it is also expected to be a short-lived one. Taking $100,000 from retirement plan assets to cover short-term liquidity concerns may not be in participants' best long-term interests.

Another consideration is security. Because recordkeeping systems will allow participants to "self-certify" they are eligible under the Act for such a distribution, and given how difficult it is to keep identity thieves out of automated systems, plan committees should consider the door these provisions open for increased cyber-theft.

Your Decisions Should be Carefully Considered:

Your Committee's decision should be based on a careful balance of the issues specific to your employees. On the one hand, what is your employees' likely need for immediate cash? Quickly offering a benefit the federal government has made available to help those economically harmed by COVID-19 will position your organization as proactive and responsive.

On the other hand, your Committee should also weigh its desire to protect people from making emotional decisions and potentially exposing plan participants to increased cyber theft risks. Consider any assistance outside the retirement plan your company may decide to offer its employees, as well as other aspects of the CARES Act which a participant may utilize as alternative forms of relief.

We're here to help you navigate these decisions so please do not hesitate to reach out to us with questions.

Sources: CNN, Wall Street Journal, Wall Street Journal #2, Wall Street Journal #3, PLANSPONSOR, NPR