COVID-19 Update

CARES Act — Q&A about Retirement Plan Provisions

April 8, 2020

Wespath has provided this preliminary summary of the CARES Act (Coronavirus Aid, Relief and Economic Security Act) as it relates to retirement plan distributions and loans for participants. A more detailed summary of the CARES Act is here.

Q: Who is a “qualified individual” for coronavirus-related distributions or loans under the CARES Act?

A: A qualified individual is an individual who:

- Is diagnosed with COVID-19 by a test approved by the Centers for Disease Control and Prevention (CDC); or
- Has a spouse or dependent diagnosed with COVID-19 by a test approved by the CDC; or
- Experiences adverse financial consequences as a result of:
  - being quarantined, furloughed or laid off, or having work hours reduced due to COVID-19;
  - being unable to work due to lack of child care due to COVID-19;
  - being unable to work due to closing or reducing hours of a business owned or operated by the individual due to COVID-19; or
  - other factors as determined by the Secretary of the Treasury.

PART I — RETIREMENT PLAN DISTRIBUTIONS

Q: I’ve heard the CARES Act creates a new withdrawal opportunity in retirement plans called a “coronavirus-related distribution.” Is this something that will be available from retirement plans administered by Wespath?

A: Wespath is currently reviewing an optional provision in the CARES Act that would permit a new distribution option for individuals impacted by the coronavirus who are not otherwise eligible for a distribution. In the very near future, Wespath will determine whether this distribution will be added to certain Wespath-administered retirement plans [such as the United Methodist Personal Investment Plan (UMPIP) and Horizon 401(k) Plan].
Q: Does the CARES Act allow for special tax treatment for “coronavirus-related distributions” by individuals who are already eligible for a retirement plan distribution?

A: Yes. If you are already eligible for a distribution, you may be able to designate up to $100,000 of distributions received between January 1, 2020 and December 31, 2020 as a “coronavirus-related distribution” (presumably when you file your tax return for 2020), and such distributions will receive special tax treatment. This provision can apply if you are a “qualified individual” (as defined above) and you are eligible for a retirement plan distribution because you either terminated employment, are retired, or are at least age 59-1/2.

Q: If I designate some or all of my 2020 retirement plan distribution as a coronavirus-related distribution, how will it be taxed?

A: A distribution received in 2020 that is designated by a qualified individual as a coronavirus-related distribution will have the following unique features:

1. *It is not subject to the 10% penalty tax on early distributions* that might otherwise apply.
2. *Income taxes due on the distribution will be spread over a three-year period* (unless you elect immediate taxation on your tax return).
3. *You may repay (re-contribute) the funds to a retirement plan that accepts rollover contributions.* You can repay the distributed funds in one or more installments within three years. This repayment feature is similar to a retirement plan loan—however, repayment from a coronavirus-related distribution is *not required*, and *no interest is due on the repayments*. If repayments are made, you would presumably receive an appropriate tax adjustment in the tax year of the repayment.

Q: Does the CARES Act provide relief from required minimum distributions (RMDs) for 2020?

A: Yes. RMDs that would have been due for the year 2020 are waived for all defined contribution plans** and IRAs. This applies to *all* plan participants (whether or not you are a qualified individual under the CARES Act) and plan beneficiaries.

- In addition, any initial RMD from a defined contribution plan that was required to be made by April 1, 2020, but was not, will be waived.
- Any RMDs due for years 2021 and beyond will be made and calculated without regard to the waived RMDs (meaning, essentially, that 2020 is a skipped year for RMDs).

** Defined contribution plans administered by Wespath include UMPIP, Horizon, the defined contribution part of the Clergy Retirement Security Program (CRSP), and the Retirement Plan for General Agencies (RPGA). The RMD waiver also applies to a participant’s Ministerial Pension Plan (MPP) account (both the 35% that is payable as a lump sum and the 65% that must be annuitized).
Q: If I would have been required to take an RMD in 2020 had it not been waived by the CARES Act, and I choose to request a distribution anyway, will the part of my distribution that would have been a 2020 RMD (if not for the waiver) now be considered “rollover eligible” and subject to mandatory 20% income tax withholding?

A: No. Under the CARES Act, the RMD waiver for 2020 does not change how income tax withholding is applied or how the direct rollover rules apply to your distribution. This treatment under the CARES Act minimizes the administrative burdens placed on plan administrators who would otherwise have to change how their systems treat these distributions for withholding and rollover purposes for only one year.

- Despite this treatment under the CARES Act, you may choose to make an (optional) indirect (“60-day”) rollover of such amount to another retirement plan or IRA.

**PART 2—RETIREMENT PLAN LOANS**

Q: I’ve heard that the CARES Act increases the maximum amount of plan loans that participants may request. Is that true?

A: While the CARES Act does permit retirement plans to increase their plan loan maximum for qualified individuals (to an amount that is essentially double the normal legal limit), *it is not a required change*. Wespath has decided *not to increase plan loan limits*. Wespath’s rationale for not increasing plan loan limits is as follows:

- Wespath is considering whether to instead offer coronavirus-related distributions in UMPIP and Horizon. Such distributions, *if added to the plans as an option*, could be repaid to the retirement plan like a plan loan, but within the participant’s discretion and without interest.

- The higher loan limits allowed through this CARES Act provision would be permissible only for a 180-day period (unlike coronavirus-related *distributions*, which are available through the end of 2020).

Q: Does the CARES Act permit plan loan repayments to be suspended due to reasons related to the coronavirus?

A: Yes. For retirement plan participants with a hardship loan (such as a loan from a Wespath-administered plan) and who self-certify that they are qualified individuals (see definition above), the Act *requires* that loan repayments be suspended.

- For such a qualified individual who has a plan loan outstanding as of March 27, 2020, or who initiates a new loan *between March 27, 2020 and January 1, 2021*, and who self-certifies qualification: any loan repayment that is due on a date that falls within that timeframe will be suspended for a one-year period. This will be the case even if the suspension causes the loan to be repaid after its original due (end) date.
Q: If I am a participant with a plan loan through Wespath and I am a qualified individual (see above), how do I get my loan repayments suspended?

A: You may call Wespath and certify to a representative that you are a qualified individual (1-800-851-2201, option 1). After doing so, you will receive a written confirmation of your self-certification. Each of your outstanding loan repayments that were scheduled to be made between March 27, 2020 and December 31, 2020, and which have not yet been paid by you, will be suspended for a one-year period.

Q: If I am already past due on my plan loan repayments, can I still get my repayments suspended if I certify that I am a qualified individual?

A: Yes; however, this repayment suspension applies only to loan repayments that were scheduled to be paid between March 27 and December 31, 2020. If you are past due on loan repayments that were scheduled to be paid before that timeframe, you still need to catch up on your loan repayments within the normal timeframe in order to avoid a loan default.

Q: If I self-certify that I am a qualified individual and have my loan repayments suspended, and then terminate employment, how would that impact my loan repayments?

A: Repayment rules under the CARES Act depend on the amount of your retirement plan account balance.

- If your account balance is at least $5,000 when you terminate employment, you may continue repaying your loan under its terms, including the suspension of loan repayments in 2020.
- If your account balance is less than $5,000 when you terminate, you will have 45 days to pay the remaining loan amount (or: you may choose to voluntarily default on your outstanding loan).

Q: If I self-certify that I am a qualified individual, can I suspend my loan repayments only for a couple of months, and then choose to resume making repayments before 2020 ends?

A: No. If you choose to suspend your loan repayments, all payments due between March 27 and December 31 that you have not yet paid will be suspended. You will not be permitted to make early or optional payments during that time.

MORE INFORMATION
Wespath is closely monitoring developments related to COVID-19. Please check our webpage for periodic updates.

The information above should not be considered legal or tax advice. Plan participants, annual conferences, local churches, or other employers or parties affiliated with The United Methodist Church (UMC) should consult with counsel in considering the application of the Act to their circumstances.