

# CARES ACT: What you need to know

## Empower Retirement can help your plan and your employees navigate the new coronavirus law

To provide relief for Americans who continue to face the economic impact of the coronavirus, the Coronavirus Aid, Relief and Economic Security (CARES) Act has been signed into law. The legislation is wide-ranging, but it provides several provisions related to retirement accounts that can help people mitigate a potential financial burden during these difficult times.

Information in this document is current as of April 1, 2020, and is subject to change based on legislative updates. Empower will communicate relevant changes to you and your plan as appropriate.

### Are participants allowed penalty-free distributions?

Yes. The CARES Act allows "coronavirus-related distributions" (CRDs) to be offered by 401(k), 403(b), government 457(b) and some 401(a) plans. These withdrawals can be made between now and December 31, 2020. Only eligible participants can qualify for CRDs (see question regarding eligibility).

Participants may request a distribution of up to \$100,000 that will be exempt from the usual 10% penalty tax on premature distributions, regardless of the participant's age. In addition, although the distribution is subject to ordinary income tax, that taxable amount may be spread equally by the participant as part of their individual tax filings over a consecutive three-year period.

The participant has the option to repay the distribution within three years, though doing so is not required. Repayments will be treated as rollover contributions and not counted toward annual contribution limits.

### How will this affect loans?

The CARES Act affects loans from retirement plans in two important ways: It allows for qualified loans at increased limits, and it allows for participants to suspend payments on existing loans temporarily. Only eligible participants can qualify for these provisions (see question regarding eligibility), and the provisions only apply to plans that allow loans.

**New loans:** The maximum qualified loan amount is increased from the lesser of \$50,000 or 50% of vested account balance to the lesser of \$100,000 or 100% of vested account balance. This increase applies to loans taken on or before September 22, 2020 (180 days following the passage of the CARES Act on March 27, 2020).

**Existing loans:** Eligible participants may suspend loan payments scheduled to occur between March 27, 2020, and December 31, 2020. When payments resume, the loan must be re-amortized to reflect the amount of the suspended repayments and interest accrued while payments were suspended, so participants won't be responsible for two payments at once.

### Who is eligible to qualify for these special provisions?

To be eligible for coronavirus-related distributions, qualified loans and suspended repayments of existing loans, a participant must meet one of the following criteria:

- Receive a personal COVID-19 or SARS-CoV-2 diagnosis from a CDC-approved test or have a spouse or dependent who receives such a diagnosis
- Suffer a heavy financial burden on account of the coronavirus due to being quarantined, furloughed, laid off, having work hours reduced, the close or reduction of a business, or the inability to work due to a lack of childcare

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Other relevant factors may affect eligibility as determined by the Secretary of the Treasury.

It's important to note that an employer can rely on an employee's certification that these conditions have been satisfied. No other documentation or proof is necessary.

### Can our plan offer these provisions immediately?

#### What about plan amendments?

Your plan can start allowing these special provisions immediately. You can amend your plan document later to retroactively include these provisions. For most plans, you'll need to amend the plan document by the last day of the 2022 plan year. Government plans must amend by the last day of the 2024 plan year. The U.S. Department of Treasury has authority to extend these deadlines.

### Are there any changes related to required minimum distributions (RMDs)?

Yes. Under the CARES Act, RMDs are temporarily waived for the 2020 calendar year. This applies to individuals already receiving RMDs and those who will reach the required age during 2020. It's important to note that because of changes under the SECURE Act, individuals turning age 70½ in 2020 will not reach RMD age until age 72.

### What types of plans are exempt from RMD rules for 2020?

In 2020, normal RMD rules will not apply to qualified retirement plans (such as 401(k) plans), 403(b) plans, governmental 457(b) plans and IRAs.

### Staying prepared as changes take effect

The impact of the coronavirus pandemic on our daily lives has been immense. But when it comes to retirement plan administration, Empower has extensive experience dealing with periods of upheaval and rapid change resulting from natural disasters:

- We have playbooks to quickly address changes in plan provisions.
- Our service center teams are fully staffed and trained.
- We have had no service or continuity issues with our staff working remotely.
- We are updating our systems and operations now to reflect the required changes.

As you communicate with your employees about the CARES Act and potential plan changes, we encourage you to relay the following key messages to help your employees best prepare for near-term contingencies:

- Be proactive with your retirement and other financial accounts.
- Make sure you can log in to your retirement account.
- Be prepared if mail delivery is suspended. Complete your personal profile and add a valid email address and other contact information.
- Make sure your ACH banking information is on file and current in case you need funds sent electronically.

We will continue to review other key changes that may arise from the CARES Act, and we will communicate those changes to you as appropriate. In the meantime, we want to ensure you have all the information you need to help your employees get the relief this new legislation may provide. Please contact your Empower representative with any additional questions.

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