



Michigan Nonprofit Association

Impact of CARES Act on Administration of Group Retirement Plans

May 6, 2020

Webinar Goals

- Provide information on the CARES Act and the impact it could have on your organization's group retirement plans.
- Provide additional resources
- Answer questions

Sarah Pinder
Engagement Director



MNA's Framework for Responding to COVID-19

- **Response (Immediate and Ongoing)**
 - Providing resources, gathering feedback
- **Relief (Next 3 to 6 months)**
 - Understanding and advocating for nonprofit needs
- **Recovery (Ongoing)**
 - Connecting nonprofits to or providing supports identified during relief phase
- **Reform (6 months and beyond)**
 - Advocating for legislative and regulatory changes

DISCLAIMER:

- ✓ Our BEST understanding as of this moment in time
- ✓ Presenting guidance NOT legal or financial advice
- ✓ You should make all decisions after consulting your attorney and CPA.
- ✓ MNA staff are NOT lawyers or CPA's

INFORMATION FOR PLAN SPONSORS

What You Need to Know about the CARES ACT

**And other COVID-19-related relief and
economic stimulus**

AGENDA

Today's discussion

Introduction to the CARES Act

Emergency Assistance for Businesses and Nonprofits

Employee Education

FAQ



Introduction to the CARES Act

ABOUT CARES

CARES provides an economic safety net for individuals, businesses and hard-hit industry sectors.

The Coronavirus Aid, Relief, and Economic Security Act (“CARES” Act) is the third and, to date, most sweeping legislative measure to address what may be a protracted period of unprecedented economic uncertainty.



ABOUT CARES

The Act's provisions include:

- **Direct payments** to millions of households, based on household income, designed to provide a stimulus to the economy.
- **Emergency access** to retirement plan accounts for individuals impacted by the coronavirus.
- **Waiver** of required minimum distributions for 2020.
- **Loans and grants** to keep small businesses in operation and retain their workers.
- **Stimulus funds** to aid state, local, and tribal governments.
- **Emergency aid** to the unemployment insurance system and expansion of benefits.
- **Under the Families First Coronavirus Response Act**, businesses with fewer than 500 employees (but more than 50) will be required to provide more workers with paid sick and family leave.

While not an exhaustive exploration of all the facets of the CARES Act, this presentation outlines key features that directly impact retirement plan sponsors, their participants, employers and individuals.

Emergency Assistance for Businesses and Nonprofits

EMERGENCY ASSISTANCE

Small businesses have access to expanded SBA direct lending.

Under the Paycheck Protection Program (PPP), the SBA has expanded authority to guarantee loans up to \$10 million for businesses, nonprofits, veterans' organizations and tribal businesses with 500 or fewer employees.

The maximum PPP loan is the lesser of 2.5 times average monthly payroll costs in the 12 month prior to loan origination, or \$10 million.

Eligible borrowers must make a good faith certification that:

- The loan is necessary due to the uncertainty of current economic conditions caused by COVID-19;
- They will use the funds to retain workers and maintain payroll, lease, and utility payments;
- And they are not receiving duplicative funds for the same uses from another SBA program.

EMERGENCY ASSISTANCE

Small business loans may qualify for loan forgiveness.

If borrowers use loan proceeds for certain purposes during the eight weeks following the loan origination, including workforce retention and payroll maintenance, **up to 100% of the loan will be forgiven so long as 75% of the loan is used for payroll expenses.**

It is essentially a loan that converts into a grant if all the requirements are followed. Its purpose is to maintain employee headcount during this period of economic disruption caused by COVID-19.

Contact your bank immediately to determine if they are an SBA approved lender and, if so, apply for a PPP loan, since loans will be distributed on a first-come basis.

In order to qualify for loan forgiveness, the loan proceeds must be used for:

- Payment for vacation, parental, family, or sick leave
- Payment of retirement benefits
- Severance pay
- Employee salaries and commissions
- Healthcare benefits and insurance premiums
- Mortgage interest
- Rent
- Utility payments
- Interest on debt incurred before the crisis

EMERGENCY ASSISTANCE

Emergency Economic Injury Disaster Loans (EIDLs) and Loan Advances

Eligibility for EIDLs has been expanded to include tribal businesses, cooperatives and employee-owned companies with fewer than 500 employees, or any individual operating as a sole proprietor or an independent contractor, during the covered period. The SBA is authorized to guarantee loans of up to \$2 million based on the borrower's economic losses.

Unlike the PPP loans, the EIDL loans must be repaid. They have favorable interest rates and up to 30-year repayment terms.

In addition, up to \$10,000 in emergency grants may be issued as a loan advance pending loan application and approval.

Also unlike the PPP loans, EIDL loan proceeds can be used for any purpose.

EMERGENCY ASSISTANCE

Larger organizations can take advantage of direct loans from the Federal Reserve.

The Federal Reserve can make direct loans to businesses and nonprofits with 500 to 10,000 employees.

- Interest won't exceed 2% annually
- Repayment of interest and principal may be deferred for up to six months (at government's discretion)

Businesses taking loans:

- Must retain at least 90% of their workforces with full compensation and benefits through at least September 30, 2020.
- Cannot outsource jobs for the term of the loan and for two years thereafter.

Additionally, existing collective bargaining agreements must stay in place, and the organization must remain neutral with respect to union activities.

However, unlike the PPP loans discussed earlier, there are no provisions under which these loans can convert into a grant (i.e., loan forgiveness).

EMERGENCY ASSISTANCE

Furloughs and layoffs.

Under the CARES Act, **laid-off employees** who are qualified individuals under the CARES Act can take a full distribution from their retirement plan accounts without being subject to a 10% penalty.

Furloughed employees are still active participants for retirement plan purposes, so they cannot take a termination distribution. They can, however, take hardship withdrawals, loans or in-service distributions if they meet the plan's requirements.

A **layoff** is more permanent in nature and is considered a separation from service for retirement plan purposes.

A **furlough** is a mandatory suspension of work without pay, but if an organization is required to provide paid sick leave – either by the CARES Act or previous COVID-19 related legislation – a furlough might not take effect until the paid sick leave expires.

EMERGENCY ASSISTANCE

Understanding partial plan terminations.

An unintended consequence of COVID-19 related layoffs is that, if more than 20% of a qualified plan's participants are laid off in a plan year and they still hold account balances, the IRS considers the plan "partially terminated."

Partial plan terminations can be costly for employers as the law requires all laid off employees to be fully vested in their account balances as of the date of the partial termination. Thus, the employer gives up forfeiture credits related to laid off employees that were not fully vested on the date of the plan termination. For the remaining in-service participants, the plan continues to operate.

To mitigate the risk of litigation or a plan audit, plan sponsors may want to file a Form 5300 to request a ruling from the IRS as to whether the plan has experienced a partial termination.

Note that the CARES Act's provisions offer ways to retain full-time staff, which may help stave off a partial plan termination.

Plan sponsors can call their local Mutual of America office for help with Form 5300 and Form 5500 preparation.

EMERGENCY ASSISTANCE

Additional key aspects for employers.

These additional provisions may pertain to you.

Your organization may be able to take advantage of:

- **Delayed payment** of employer payroll taxes
- **Employee retention tax credit** for employers subject to closure due to COVID-19
- **Payroll tax credit relief** for emergency COVID-19 sick leave
- **Preserved use** of net operating losses by direct loan program borrowers
- **Expanded** business interest deduction
- **Modified** net operating loss tax rules
- **Temporary repeal** of excess business loss limitation rules

**We're Here to Help
Employee Education**

EMPLOYEE EDUCATION

Education can help calm nerves and lead to better decisions.

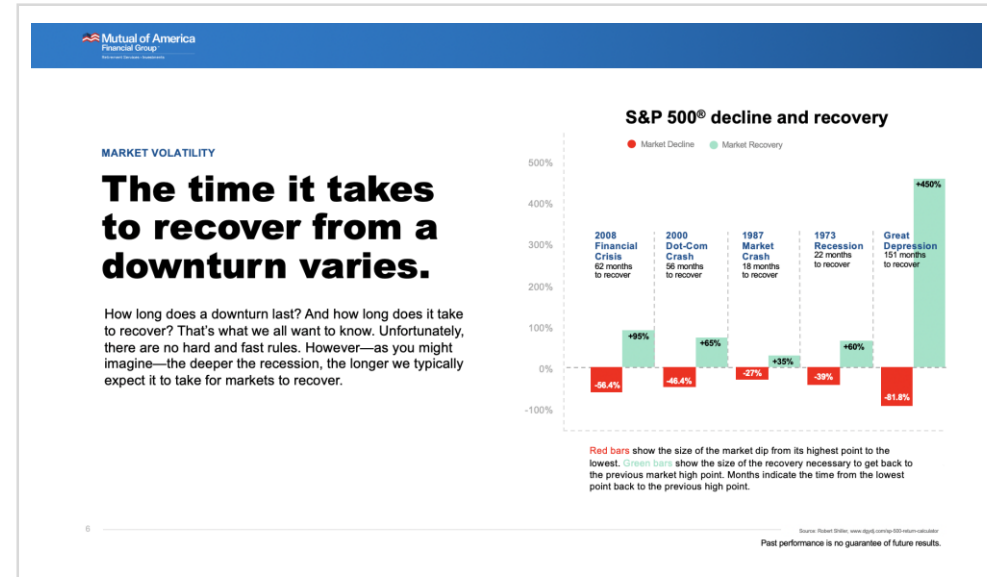
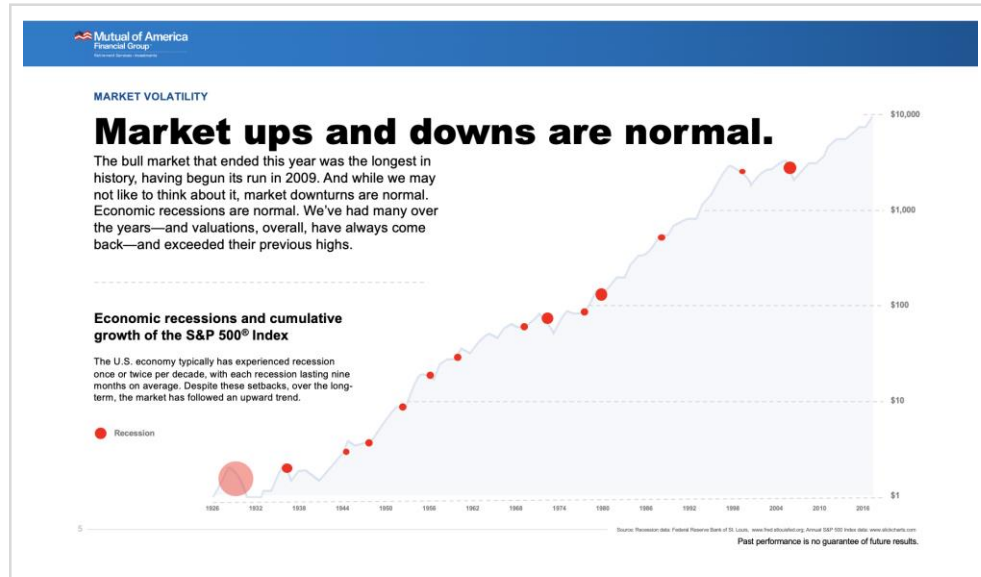
Knowledge is empowering and can help soothe your employees' uneasiness. We've created a short presentation for our Participant Account Representatives to facilitate conversations with your people.



EMPLOYEE EDUCATION

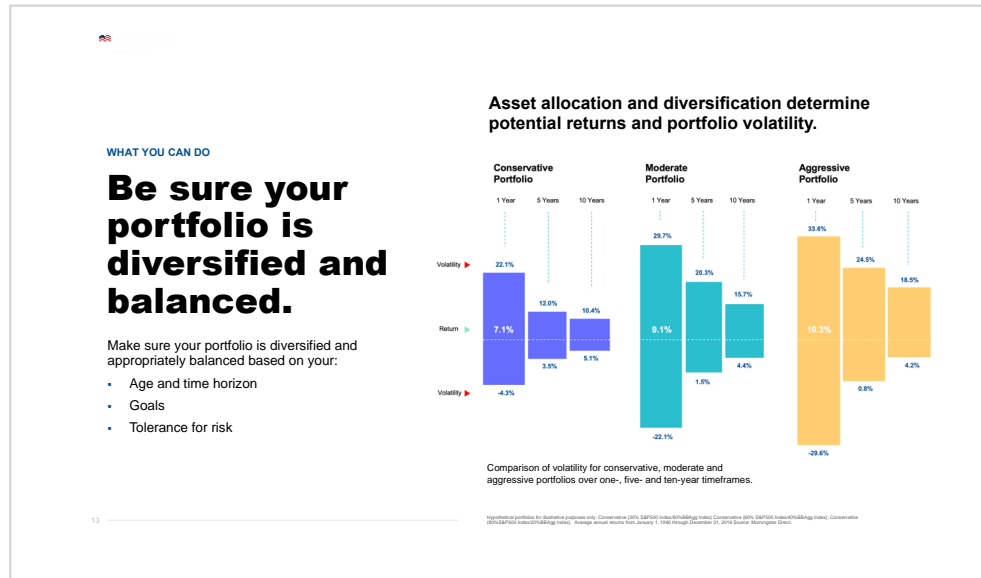
Perspective on market volatility

Our new employee education presentation helps put volatility into context and shows post-dip market resiliency.



EMPLOYEE EDUCATION

Provides employees with a range of actions they may wish to consider.



EMPLOYEE EDUCATION

Features of the CARES Act.

Extends and expands unemployment insurance, adding \$600 to recipients' normal state payments until July 31.

It also provides for direct payments of \$1200, plus \$500 per child, to adult single taxpayers with adjusted gross incomes of \$75,000 or less, or \$2400 to those married filing jointly with adjusted gross incomes of \$150,000 or less.

Although not part of the CARES Act, the Department of Treasury and IRS extended to July 15 the deadline for taxpayers to file and pay federal income tax. The extension means that individuals will also have until July 15 to make contributions to IRAs and HSAs for the 2019 tax year.

Additional highlights

- Direct reduction of taxable income for individual contributions to churches and charities of up to \$300 for the 2020 tax year
- Employers may contribute up to \$5,250 annually toward an employee's student loans without including them in income. The provision is effective for payments made after March 27, 2020 and before January 1, 2021
- Flexibility for student loan borrowers in repaying loans or returning grants. Students who left school because of COVID -19 are not required to return Pell grants or federal student loans to the Secretary.
- Expanded telehealth services from Medicare, including services unrelated to COVID-19 treatments
- Exclusion of direct taxpayer payments from taxable income
- Exclusion of additional unemployment compensation from income for purposes of determining eligibility for Medicaid and the Children's Health Insurance Program
- Requirement for health insurers to provide rapid coverage for "qualifying coronavirus preventative services"

EMPLOYEE EDUCATION

How this affects your retirement plan.

Relaxed in-service withdrawal requirements

- Qualified individuals can take up to \$100,000 in aggregate from retirement plans and IRAs.
- Waiver of 10% early withdrawal penalty.
- No 20% federal tax withholding requirement on employer sponsored plans with the ability to pay taxes over 3 years.
- Ability to re-deposit any withdrawals over next 3 years as rollover contributions.

Loan provisions are more accommodative.

- Maximum is the lesser of \$100,000 or 100% of the vested balance (increase from \$50,000 or 50%).
- Loan repayments may be delayed one year.

Required Minimum Distributions are waived for 2020.

A “qualified” individual is someone who:

- Has been diagnosed with COVID-19, or has a spouse or dependent who has been diagnosed with the virus; or
- Has experienced adverse financial consequences as a result of quarantine, furlough, layoff, reduced hours, lack of childcare or business closure

FAQ

Q&A

We're here to help!

Your Mutual of America Group Account Representative is available to answer your questions and discuss any concerns you may have. We hope you won't hesitate to get in touch anytime.



Name: Mark Hemme

Email: mark.hemme@mutualofamerica.com

Phone: (248) 971-4649

**Remember, we are in this together.
And together, we will get through it.**



Mutual of America Life Insurance Company, 320 Park Avenue, New York, NY 10022-6839 | mutualofamerica.com | 800.468.3785 | Connect with us on:   

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**This material is not intended to give legal or tax advice,
and you should not rely on it for legal or tax advice.**

**You should consult your legal or tax adviser
regarding retirement plan rules and regulations.**

Useful resources

For additional information, visit these websites:

Mutual of America:

[What You Should Know About the CARES Act](#)

The Department of Labor:

[Coronavirus Aid, Relief, and Economic Security \(CARES\) ACT](#)

MNA Resources specific to COVID-19 Response

- [MNAonline.org](https://mnaonline.org)- Special COVID-19 section
- Sign-up for e-newsletters
- Contact MNA staff
- Calendar with events
- Future tele-town halls and webinars

Connect on Social Media

@MNAonline



Join LinkedIn group: Leading Nonprofits Through COVID-19

Thank You!

Please provide feedback
via online survey after the event
to help inform future webinars.

Send additional feedback to
spinder@mnaonline.org.