

COVID-19 Impact on Cash Balance and Defined Benefit Plans:

What You Need to Know



Legislative and Regulatory Changes Impacting Cash Balance Plans and Defined Benefit Plans

The CARES Act, signed into law on March 27, 2020, has provisions directly impacting or requiring action from plan sponsors including:

- The due date for 2019 minimum required contributions has been extended to January 1, 2021. Forms 5500 and Schedule SB are still due, by October 15, 2020 (with extension) for calendar-year plans.
- **There will be no 10% excise tax on DB contributions deposited after September 15, 2020 but before Jan 1, 2021.** The deduction date is still the plan sponsor's tax return due date including extensions.
- Allows for coronavirus-related distributions (CRDs) and loans; see below for details.

Additional Guidance:

- The deadline has been extended from April 30, 2020 to July 31, 2020 for the six-year remedial amendment cycle for pre-approved defined benefit (DB) pension plans. The extension was announced in an IRS website posting.
- **An IRS FAQ confirmed extension of the Federal tax return due date to July 15, 2020 for persons with Federal tax returns due April 15.** "Person" includes any type of taxpayer, such as individual, trust, estate, corporation, or any type of unincorporated business entity.



Timeline and Requirements for Freezing Your Plan

- Participants in your defined benefit or cash balance plan will accrue a benefit for the plan year ending **December 31, 2020** once they have worked 1,000 hours during the year if stipulated in the document's "Benefit Accrual" section. While this usually occurs as early as late May, plan sponsors must review hours worked to determine when the first participant will reach 1,000 hours of service for the year.
- Once this benefit is accrued, it cannot be taken away, and you will have to fund it.
- In order to freeze your plan, participant notification must be provided at least 15 days prior to the benefit accrual date, and the plan must also be amended before that date. For large plans with more than 100 participants benefiting, the notice period is 45 days.
- **If you wish to reduce or freeze benefits for 2020, please contact us immediately.**



Impact of Market Losses on Employer Contribution Requirements

The investment performance of the cash balance trust impacts the required plan sponsor contribution. If the plan's investment earnings are less than the plan's interest crediting rate, then future employer contributions will be increased. Please contact your consultant for additional details.

Your options as a plan sponsor include:

- Amortize the shortfall over a period of up to seven years.
- Wait for a rise in interest rates or a market return on investments.
- PBGC-covered plans: majority owners can waive benefits upon plan termination.
- Non-PBGC plans: any or all owners can waive benefits upon plan termination.



Coronavirus-Related Distributions (CRDs) and Loan Relief

The CARES Act permits tax-favored Coronavirus-related distributions (CRDs) for qualified individuals affected by the coronavirus if they take distributions between January 1, 2020 and December 31, 2020. For defined benefit and money purchase pension plans, an existing distributable event (such as an in-service withdrawal) must be available in order for an individual to qualify for CRD tax benefits. For other defined contribution plans, however, the CRD provision can be added as a separate distributable event.

The CARES Act also provides loan relief for qualified individuals, increasing the maximum loan amount to the lesser of \$100,000 or 100% of a participant's vested balance. The defined benefit plan document must allow for participant loans, although you may amend it later to add this provision. We always suggest that our clients first consider exhausting participant loans from defined contribution plans in order to reduce the loan administration burden in the defined benefit plan.