

CARES Act— What you need to know

On March 27, 2020, President Donald Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (“CARES Act” or “Act”). The CARES Act is the third in a series of stimulus packages designed to inject confidence and liquidity into the economy.

The CARES Act includes a number of provisions specific to retirement plans, including:

- Waiver of penalties for coronavirus-related distributions for eligible individuals up to \$100,000
- Waiver of mandatory withholding tax on coronavirus-related distributions and repayment of distributions over three years
- Similar rules for hardship withdrawal loans to eligible individuals
- Waiver of required RMDs in 2020

The Act also extends plan amendments related to adopting these measures to at least year-end 2022, and it gives the Department of Labor (DOL) authority to extend certain ERISA deadlines.

Summary of Key Provisions

SUMMARY OF PROVISION	EFFECTIVE DATE	CLIENT IMPACT	COMMENTS
Coronavirus-Related Distributions (CRDs) <ul style="list-style-type: none"> • New in-service distribution of up to \$100,000 • Participant must meet eligibility requirements • Participant can self-certify eligibility • No 20% mandatory withholding or 402(f) Notice required • No 10% early distribution penalty • Included in income ratably over 3 years • Distributions can be repaid within 3 years 	Distributions may be made between 1/1/2020 and 12/31/2020	<ul style="list-style-type: none"> • Optional provision • Sponsor must amend plan to allow* 	<ul style="list-style-type: none"> • Applies to 401(a), 401(k), 403(b), and governmental 457(b) plans and IRAs • Not available to defined benefit or money purchase plans that do not allow in-service withdrawals
Increase in maximum loan from \$50,000 or 50% of vested account balance to \$100,000 or 100% of vested account balance	Applies to loans taken out between 3/27/2020 and 9/23/2020	<ul style="list-style-type: none"> • Optional provision • Sponsor must amend plan to allow* 	<ul style="list-style-type: none"> • Participant must meet same eligibility criteria as for CRD
Delay of loan repayments for one year	Applies to loan repayments due after 3/27/2020 and before 12/31/2020	Appears to be optional	<ul style="list-style-type: none"> • Participant must meet same eligibility criteria as for CRD
Waiver of Required Minimum Distribution (RMD) for 2020	Applies to RMDs due in 2020 but not yet paid	<ul style="list-style-type: none"> • Pru's position is to waive RMDs as the default • Sponsor must amend plan to allow* 	<ul style="list-style-type: none"> • Not available for defined benefit plans and tax-exempt 457(b) plans
Delay in pension funding and benefit restrictions <ul style="list-style-type: none"> • Applies to single employer defined benefit plans 	Calendar year 2020	Can delay funding until 1/1/2021	<ul style="list-style-type: none"> • Does not apply to multiemployer plan funding
Expansion of DOL authority to postpone certain deadlines for a public health emergency	TBD	Increases likelihood of delay in compliance with reporting and disclosure requirements.	<ul style="list-style-type: none"> • Guidance from Labor and Treasury/IRS expected soon
Hardship withdrawals provide alternative to CARES Act distributions in states that have been identified as federally declared disaster areas	Varies by state	Alternative approach to allowing distributions	<ul style="list-style-type: none"> • Available under existing safe harbor if allowed by plan • Check FEMA site for list of states

*Amendments not required earlier than December 31, 2022

For Plan Sponsor and Financial Professional Use Only

Plan sponsors are not required to adopt the special distribution and loan relief available under the CARES Act and may choose to rely on hardship withdrawal and distribution rules already in place under their plan, as applicable.

Impacts to Defined Benefit Plans

In addition, the Act includes funding and benefit restriction relief for single-employer defined benefit plans. These plans are not required to meet 2020 funding obligations until January 1, 2021. Additionally, plan sponsors may elect to apply the plan's funded status for the 2019 plan year in determining the application of benefit restrictions for 2020. The CARES Act did not include funding relief for multiemployer plans.

We are here to help

Prudential has been an advocate for measures that legislators and regulators can and should put in place to ease administrative burdens for plan sponsors during this crisis, and to help millions of workers who find themselves in extreme financial risk as a result of the epidemic and related market volatility. These actions align with our purpose to make lives better by solving the financial challenges of our changing world.

For more help related to the CARES Act, speak to your Prudential Retirement representative.

