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COVID-19 Update

CARES Act—Q&A about Retirement Plan Provisions

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Wespath has provided this 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;
  - the individual having a reduction in pay (or self-employment income) due to COVID-19 or having a job offer rescinded or start date for a job delayed due to COVID-19;
  - the individual's spouse or a member of the individual's household* being quarantined, furloughed or laid off, or having work hours reduced due to COVID-19, being unable to work due to lack of childcare due to COVID-19, having a reduction in pay (or self-employment income) due to COVID-19, or having a job offer rescinded or start date for a job delayed due to COVID-19;
  - closing or reducing hours of a business owned or operated by the individual's spouse or a member of the individual's household* due to COVID-19; or
  - other factors as determined by the Secretary of the Treasury.

**A member of an individual's household is someone who shares the individual's principal residence.*

PART 1—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 is available from retirement plans administered by Wespath?

A: Yes. The United Methodist Personal Income Plan (UMPIP) and the Horizon 401(k) Plan (Horizon) are being amended to permit such distributions to plan participants who qualify (referred to as "qualified individuals"—see the Q&A above). *Wespath worked quickly to make this type of distribution available **beginning in early May 2020***. The new distribution option in UMPIP and Horizon permits qualified individuals to receive, until the end of 2020, a coronavirus-related distribution (or multiple distributions) of up to $100,000 from their participant contributions account.**

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 retirement plan 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" (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 59½.

Q: If I receive a coronavirus-related distribution under the new withdrawal opportunity described above, or if I designate some or all of my 2020 retirement plan distribution as a coronavirus-related distribution on my tax return, how will such a distribution be taxed?

A: These coronavirus-related distributions will have the following unique features:

1. *They are 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, the taxable amount of the coronavirus-related distribution is reduced.
4. For coronavirus-related distributions received under the new withdrawal opportunity added to UMPIP and Horizon, such distributions are not subject to mandatory 20% income tax withholding.

*** In the Horizon plan, the distribution may be received from the participant contributions and employer contributions accounts.*

Q: If I am a qualified individual, how do I request a coronavirus-related distribution from UMPIP or Horizon?

A: You must call Wespath to receive an applicable coronavirus-related distribution form. You must self-certify on that form that you are a qualified individual, and request the amount of your distribution, subject to the $100,000 and timing limits described above. You will receive a *Form 1099-R* (tax reporting form) in early 2021 that reports the distribution.

Q: What does it mean to "certify" to Wespath that I am a "qualified individual"?

A: It means that you are representing that you meet the definition of a "qualified individual" as described on page 1 of these FAQs. In many cases, this will be a judgment call to be made by you. Whether a participant has experienced "adverse financial consequences" due to one of the listed reasons is to be determined by the individual making the certification, as that term is not defined by the CARES Act.

Q: Will a coronavirus-related distribution be available from other retirement plans, such as CRSP [including Ministerial Pension Plan (MPP) and Pre-82] or RPGA?

A: No. Only UMPIP and Horizon will be amended to create this new distribution option. The CARES Act permits, but does not require, such an option to be added to retirement plans.

- Only General Conference may make optional amendments to plans such as the Clergy Retirement Security Program (CRSP), the Retirement Plan for General Agencies (RPGA) and the Global Episcopal Pension Program (GEPP). If you are already eligible for a distribution from one of these other retirement plans, such a distribution made during 2020 may be eligible for the special tax treatment of a coronavirus-related distribution, if you designate such a distribution (up to a total of $100,000) as a coronavirus-related distribution when you file your income tax return for 2020. See the Q&A above regarding individuals who are already eligible for a retirement plan distribution.

Q: Can I receive more than one coronavirus-related distribution?

A: Yes. If you are a qualified individual (as defined on page 1), you may receive more than one coronavirus-related distribution, as long as the total of all coronavirus-related distributions does not exceed either the $100,000 maximum or the amount you have available for such distribution in your retirement plan(s). Coronavirus-related distributions must be made **before January 1, 2021**.

Q: Are coronavirus-related distributions considered rollover-eligible distributions?

A: No. Distributions made pursuant to the new coronavirus-related distribution option added to UMPIP and Horizon will not be treated by the distributing plan as rollover-eligible distributions. Thus, they are not eligible for direct rollover to another retirement plan or IRA, and they are not subject to mandatory 20% income tax withholding.

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 made, 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).

Q: Is there anything I need to do in order to avoid receiving my 2020 RMD from my defined contribution retirement plan, due to it being waived under the CARES Act?

A: No. Wespath is adjusting plan administration in 2020 to prevent the waived RMDs from being distributed automatically. There are no actions that you need to take if you do not wish to receive the waived RMD.

Q: Is there anything I need to do in order to avoid receiving my 2020 RMD from my defined contribution retirement plan, due to it being waived under the CARES Act?

A: No. Wespath is adjusting plan administration in 2020 to prevent the waived RMDs from being distributed automatically. There are no actions that you need to take if you do not wish to receive the waived RMD.

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 a retirement plan that accepts rollovers or to an IRA as long as this rollover is made within 60 days of the distribution—or by **August 31, 2020** if the 60-day period has already ended.

**** 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).*

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 has chosen instead to offer qualified individuals a new withdrawal opportunity for coronavirus-related distributions in UMPIP and Horizon. Such distributions may 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 delayed due to reasons related to the coronavirus?

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

- 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**, any loan repayment that is due on a date that falls within that timeframe will be delayed, with loan repayments resuming in **January 2021** (re-amortized to take into account loan interest that accrued during the delay period). This will be the case even if the delay 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 (as defined on page 1), how do I get my loan repayments delayed?

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 delayed, with your loan repayments resuming in **January 2021**. **Please note:** Interest on your loan will continue to accrue during the delay period, as required by the CARES Act.

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

A: Yes; however, this repayment delay 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 delayed, 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 $5,000 or higher* when you terminate employment, you may continue repaying your loan under its terms, including the delay of loan repayments.
- *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 delay 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 delay your loan repayments, *all payments due* ***between March 27 and December 31*** that you have not yet paid will be delayed. *You will not be permitted to make early or optional payments during that time.*

Q: If I self-certify that I am a qualified individual, and I have my loan repayments delayed, will my loan repayment amount be different when they resume in January 2021?

A: Yes. When your loan repayments resume in **January 2021**, they will be re-amortized, taking into account the loan repayment delay period and loan interest that accrues during that period. Thus, the repayment amount will differ when the loan repayments resume.

MORE INFORMATION

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

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.

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