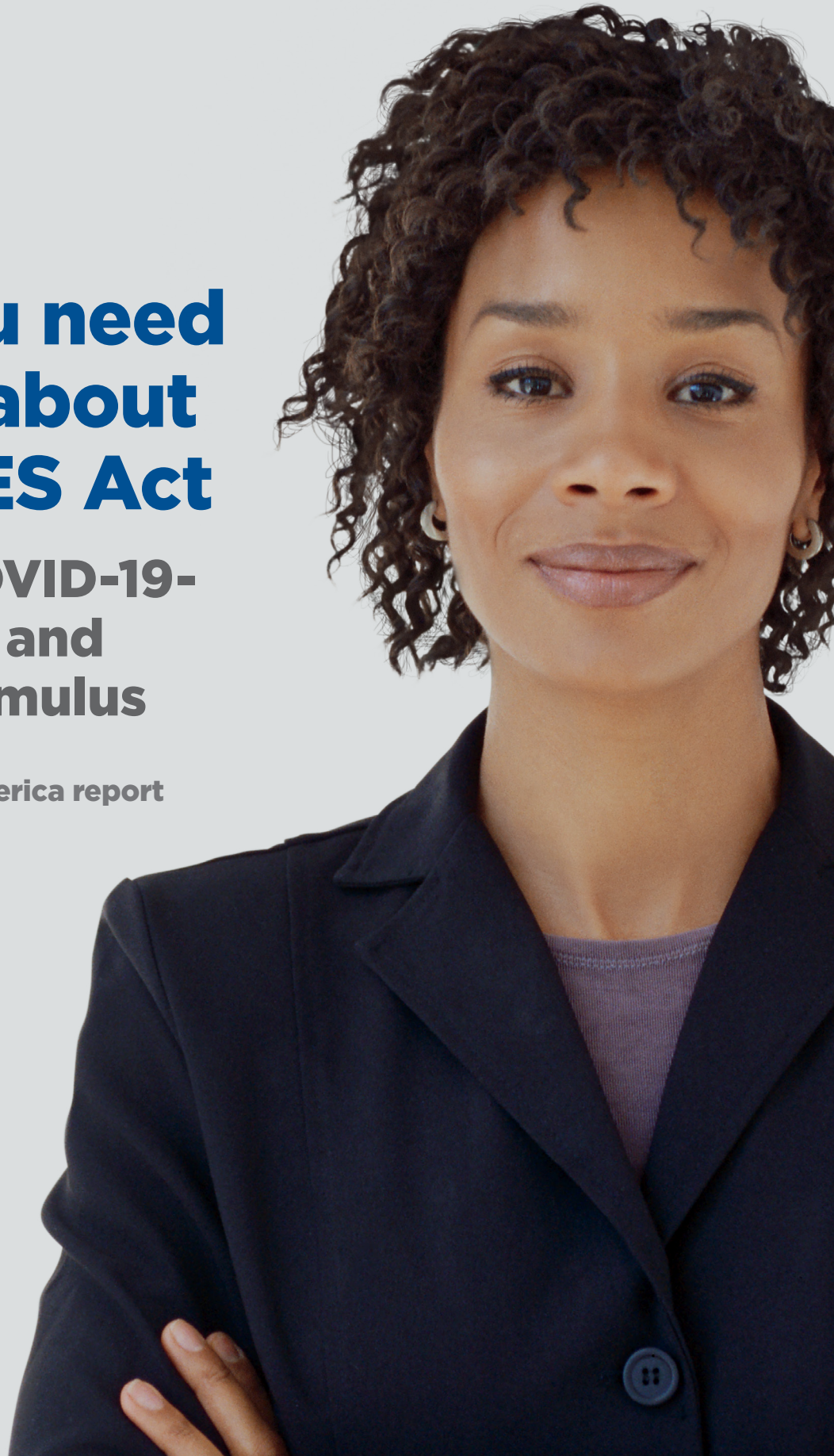


What you need to know about the CARES Act

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

A special Mutual of America report



An introduction to the CARES Act and other COVID-19-related relief and economic stimulus

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. The CARES Act is the third and, to date, most sweeping legislative measure to provide economic safety nets for individuals, businesses and hard-hit industry sectors, as well as to provide greater resiliency for what may be a protracted period of unprecedented economic uncertainty.

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 guide outlines key features that directly impact retirement plan sponsors, their participants, employers and individuals.



For more information on how the CARES Act may affect you, contact your local Mutual of America office or call 866.954.4321.

Section 1

Key CARES Act provisions directly impacting **PLAN SPONSORS**



Emergency assistance for businesses and nonprofits

The CARES Act's Paycheck Protection Program (PPP) provides economic relief for businesses and nonprofits, including special loans and loan forgiveness for smaller organizations, which are believed to be disproportionately affected by this unprecedented public health crisis.

Small Business Administration (SBA) loans

Under the 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 months 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; that they will use the funds to retain workers and maintain payroll, lease and utility payments; and that they are not receiving duplicative funds for the same uses from another SBA program.

If the borrowers use the loan proceeds for certain purposes during the 8 weeks following the loan origination, including workforce retention and payroll maintenance, up to 100% of the loan will be forgiven as long as 75% of the loan is used for payroll expenses.

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

Even if layoffs or furloughs have already occurred, the law provides incentives for employers to rehire those workers who may already have been laid off due to the economic disruption caused by the coronavirus and obtain a PPP loan than could qualify for loan forgiveness if all of the below noted conditions are met.

You should immediately contact your bank to determine if they are an SBA approved lender and, if so, apply for a PPP loan, since they 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 and 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

The Act also provides for payments to sole proprietors or independent contractors, not to exceed \$100,000 prorated for the covered period.

Emergency Economic Injury Disaster Loans (EIDLs) and loan advances

In addition to small businesses, 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 EIDLs must be repaid, but 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 proceeds can be used for any purpose.

Direct loans from the Federal Reserve to larger organizations

The Act also directs the Secretary of the Treasury to establish a program whereby the Federal Reserve can make direct loans to businesses and nonprofits with between 500 and 10,000 employees. The interest on these loans won't exceed 2% annually, and at the government's discretion, repayment of interest and principal can be deferred for up to six months.

Borrowing organizations must use the funds to retain at least 90% of their workforces with full compensation and benefits through at least September 30, 2020. In addition, they cannot outsource jobs for the term of the loan and for two years thereafter. 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 above, there are no provisions under which these loans can convert into a grant (i.e., loan forgiveness).

Other COVID-19-related relief for employers and employees

Parsing employment status: furlough and layoff

Many organizations have already implemented furloughs and/or layoffs in order to reduce overhead during this current period of uncertainty. While its meaning has evolved over the years, a layoff is more permanent in nature and is considered a separation from service for retirement plan purposes.

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. (See page 7 for more details.)

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.

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.

If an organization qualifies and obtains a loan directly from the SBA or the Federal Reserve, it will need to bring furloughed or laid-off workers back to active payroll status in order to comply with the loan agreement's workforce maintenance covenants.

The cause and impact of partial plan terminations

An unintended consequence of COVID-19-related layoffs (as opposed to furloughs) 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 immediately 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, and it must continue to comply with qualification rules. If the plan is covered by ERISA, it must continue to file Form 5500 and adhere to ERISA's fiduciary rules.

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

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

Delayed payment of employer payroll taxes

The provision allows employers and self-employed individuals to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees. The deferred tax must be paid over the following two years, with half of the amount required to be paid by December 31, 2021, and the other half by December 31, 2022.

Employee retention tax credit for employers subject to closure due to COVID-19

A refundable payroll tax credit for 50 percent of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose (1) operations were fully or partially suspended due to a COVID-19-related shut-down order, or (2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year. For employers with greater than 100 full-time employees, qualified wages are wages paid to employees when they are not providing services due to the COVID-19-related circumstances described above. For eligible employers with 100 or fewer full-time employees, all employee wages qualify for the credit, whether the employer is open for business or subject to a shut-down order. The credit is provided for the first \$10,000 of compensation, including health benefits, paid to an eligible employee. The credit is provided for wages paid or incurred from March 13, 2020, through December 31, 2020.

Additional key aspects for employers

- 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

Section 2

Key CARES Act provisions directly impacting **PLAN PARTICIPANTS**



Direct and regulatory assistance for impacted individuals and families

Emergency withdrawals from retirement accounts

As many individuals are finding their income reduced or eliminated, the CARES Act relaxes rules on taking withdrawals from employer-sponsored retirement plans and IRAs. "Qualified individuals" (refer to definition below) can take up to \$100,000 in aggregate from these accounts.

Distributions will not be subject to the usual 20% withholding, age requirement and notice rules. While such withdrawals are immediately taxable, the tax burden will be automatically spread over three years, unless the participant elects otherwise. Participants can incrementally repay the emergency withdrawal within three years of the date of distribution. Repayments are treated as rollover contributions and may be permitted to be made on a pre-tax basis.

A qualified individual has:

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

Plan administrators are permitted to rely on employees' representations that they qualify under the Act.

Employees should look at other sources of income before withdrawing funds from retirement plans. Tapping retirement savings in a down market locks in a realized investment loss and does not afford plan participants the opportunity to recoup such unrealized investment losses as the market recovers.

New maximums for retirement savings plan loans

Similarly, qualified individuals can take larger loans against their retirement savings account balances. Loan limits will be increased to the lesser of \$100,000 or 100% of a qualified individual's account balance for 180 days after enactment of the law. This new maximum amount doubles the previous permissible loan limit.

Loan repayments may be delayed up to one year, and the delay extends to any loan previously outstanding to a qualified individual as of the Act's effective date. Subsequent repayments will be adjusted to reflect the delay, together with loan interest accrued during the delayed period.

Suspension of Required Minimum Distributions (RMDs)

Retirement account participants will not have to take any normally required minimum distributions in 2020 (assuming distributions have not already been made).

The 2020 RMD would have been based on account values on December 31, 2019, when the financial markets were significantly higher than they are since the widespread expansion of the COVID-19 virus. The suspension precludes account holders from having to withdraw a portion of their savings at a likely diminished value yet pay taxes on the original valuation. Of course, any amounts can still be withdrawn as needed or desired.

If beneficiaries are receiving distributions over a five-year period, they can waive the distribution for 2020.

Extended and expanded unemployment benefits

The CARES Act complements existing state unemployment insurance by adding \$600 to recipients' normal state payments until July 31, 2020. The types of workers eligible for unemployment payments have been expanded and the work history requirements effectively waived. State unemployment insurance will be extended by 13 weeks, and the customary one-week waiting period will also be waived.

Direct payments to households

The CARES Act provides for direct payments of \$1,200, plus \$500 per child, to adult single taxpayers with adjusted gross incomes of \$75,000 or less, or \$2,400 to those married filing jointly with adjusted gross incomes of \$150,000 or less. Payments decrease on a sliding scale beyond those thresholds, disappearing completely for single filers with adjusted gross incomes of more than \$99,000 and joint filers with adjusted gross incomes of more than \$198,000.

Charitable contributions

The CARE Act created a direct reduction of taxable income for individual contributions to churches and charities of up to \$300 for the 2020 tax year.

Student loan relief

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. Students who left school because of COVID-19 are not required to return Pell grants or federal student loans to the Secretary.

Tax deadlines extended

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

Additional key aspects for individuals

- Expanded tele-health 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 preventive services"

About Mutual of America Financial Group

Mutual of America provides retirement plan services nationwide to organizations and their employees. For the past 75 years, our proven approach to simplifying retirement planning and investing has helped plan participants build the assets they need to support the life they want.

When it comes to retirement services and investments, our experience, expertise and guidance are known and respected throughout the industry... and especially by those who rely on us to help secure their financial future.



Experience

Since 1945, American families have relied on us to help them prepare for retirement. In addition, our plan sponsor retention rate is above 98% annually.



Plan development

Our team is experienced in designing scalable, cost-effective retirement plans for any size organization.



Expertise

We provide administration for complex benefit arrangements, including multiple plans sponsored by a single employer and multiple-employer plans.



People

Our associates represent one of the most talented and accomplished teams in the financial services industry. Their commitment and dedication deliver value for our customers every day, year after year.



Technology

Our work is backed by technology that allows us to deliver information, guidance and services faster, better and more effectively than ever before.



Local presence

With offices nationwide, Mutual of America can tailor services and solutions to the needs of local and regional businesses and their employees.



For more information on how the CARES Act may affect you, contact your local Mutual of America office or call 866.954.4321.

The content in this guide is for informational purposes and does not constitute legal or tax advice. You should consult your tax adviser or attorney regarding your individual circumstances.



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