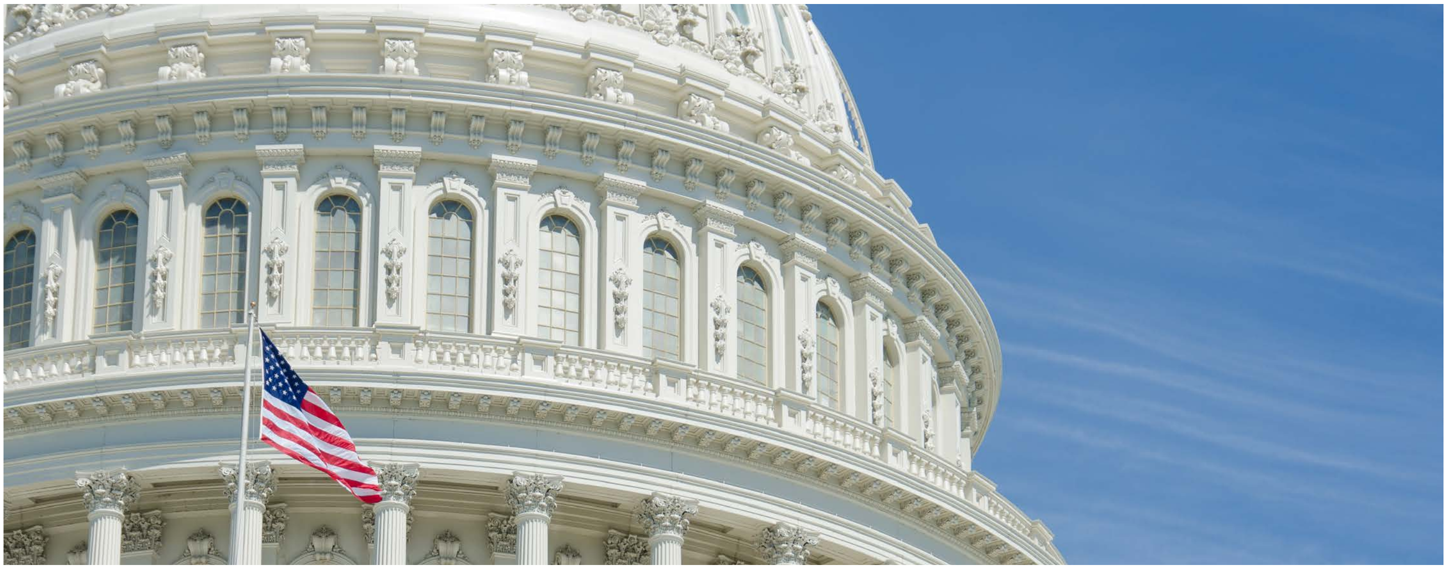
USI CONSULTING GROUP

The Consolidated Appropriations Act, 2021: Impact on Retirement Plans and Pensions



The Consolidated Appropriations Act (CAA), 2021, a spending bill that provides annual funding for the U.S. federal government and comprehensive COVID-19 relief, was passed by Congress on December 21, 2020, and signed into law by President Trump on December 27, 2020. The CAA provides a few retirement plan rules, including partial plan termination relief and special disaster relief provisions.

The CAA does not extend the COVID-19-related distributions or the COVID-19-related loans that were provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. However, the CAA amends the CARES Act to provide that in-service distributions from money purchase pension plans can qualify as COVID-19-related distributions.

Partial Plan Termination Relief

A qualified retirement plan, defined contribution or defined benefit that's determined to have experienced a partial termination must fully vest (i.e., apply 100% vesting) to the account balance or accrued benefit of each affected participant. In general, when an employer's reduction in the workforce results in a turnover rate of at least 20% of plan participants in the applicable period (i.e., the plan year), there's a rebuttable presumption that a partial plan termination has occurred.

The CAA provides temporary rules for preventing partial plan terminations by allowing the extension of partial plan termination determinations until March 31, 2021. A plan will not be treated as having experienced a partial termination during a plan year that includes March 13, 2020 to March 31, 2021 — if the number of active participants covered under the plan on March 31, 2021, is at least 80% of the number of active participants covered under the plan on March 13, 2020 (the date the COVID-19 emergency was declared).

Disaster Relief Provisions

The CAA provides disaster relief provisions for certain qualified disaster-related distributions and loans related to Federal Emergency Management Agency (FEMA)-declared disasters, excluding COVID-19-related disasters. The disaster-related provisions are similar to the rules in the CARES Act.

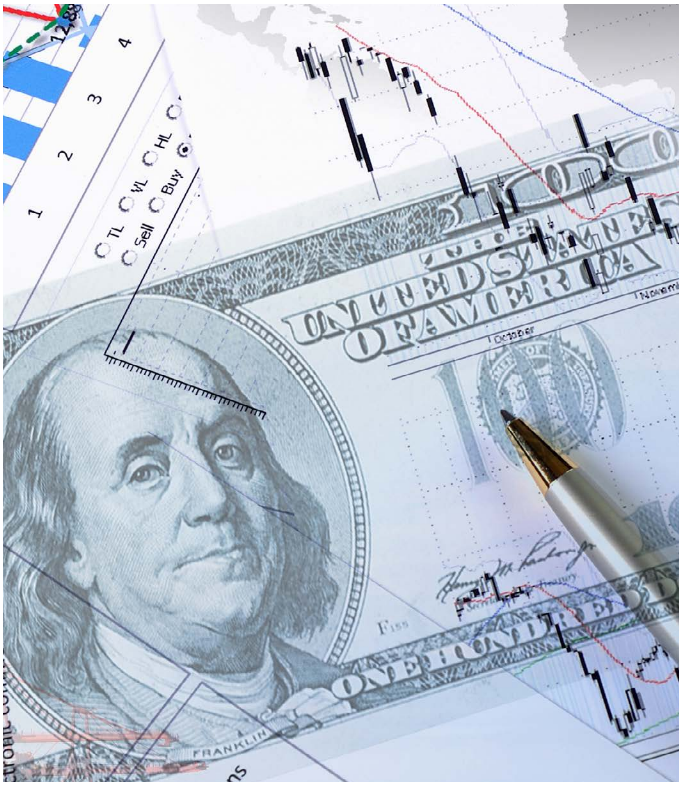
Qualified individuals may take disaster-related distributions up to $100,000 during the applicable period, which is on or after the first day of the incident period of the qualified disaster and within 180 days of December 27, 2020 (the date of the enactment of the CAA). These disaster-related distributions are exempt from the 10% early distribution penalty and 20% mandatory tax withholding, and Section 402(f) special tax notice requirements.

Disaster-related distributions may also be paid back to a qualified plan or IRA within three years as a tax-free rollover and may be included in income ratably over a three-year period. Disaster-related loans are increased to the lesser of 100% or $100,000, and disaster-related loans may be delayed for one year. Additionally, the CAA provides that certain hardship withdrawals taken for home purchases may be recontributed, such as ones that were not able to be used for such purposes in qualified disaster-related areas.

These disaster relief provisions are discretionary. Plan sponsors may allow for qualified disaster-related distributions and loans immediately, but they will have until the last day of the first plan year beginning on or after January 1, 2022, to amend their plans for these provisions.

CARES Act COVID-19-Related Distributions and Money Purchase Plans

The CAA amends the CARES Act to allow in-service distributions from money purchase pension plans to be treated as COVID-19-related distributions. However, this provision does not provide a new opportunity to take a COVID-19-related distribution, but applies retroactively to money purchase plans that made distributions between January 1, 2020, and December 30, 2020.



It's expected that further guidance will be provided from the government on the CAA changes. USI Consulting Group will continue to monitor the above CAA provisions, as well as other Setting Every Community Up for Retirement Enhancement (SECURE) Act requirements, and will provide additional updates as new information becomes available.

If you have any questions, or would like additional information, please contact your USI Consulting Group representative.

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