



Stimulus bill gives 2020 DB funding relief, access to DC savings

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In this article

[DB plan relief](#) | [Relief for DC plan participants](#) | [Related resources](#)

A number of provisions to help retirement plan participants and sponsors deal with the COVID-19 pandemic are included in “phase 3” economic stimulus legislation ([HR 748](#)) expected to soon become law. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, which addresses several employee benefit issues, is the product of contentious negotiations this week between Democrats and Republicans. The Senate unanimously approved the measure March 25, and House passage is expected March 27. President Trump says he will quickly sign the bill. This article summarizes the major provisions relating to defined benefit (DB) and defined contribution (DC) plans.

DB plan relief

Historically low interest rates and plummeting equity markets are leaving many DB plan sponsors facing large contribution requirements at a time when cash is sorely needed elsewhere. The stimulus package provides short-term relief for single-employer DB plans by delaying all 2020 minimum required contributions until 2021 and easing benefit restrictions, among other provisions.

A competing House stimulus bill included longer-term relief sought by Mercer and the pension community that would have reset shortfall amortizations over a 15-year period and extended interest-rate stabilization. The House bill also would have offered 30-year interest-only loans to troubled multiemployer pension plans. These provisions were dropped during negotiations with the Senate but will be considered for inclusion in later stimulus bills. House Democratic leaders have said they expect at least two more rounds of coronavirus-related relief legislation.

Contribution delay. Employers have until Jan. 1, 2021, to make any minimum required contributions originally due during the 2020 calendar year. The relief applies to quarterly contributions and any year-end contributions, regardless of plan year. When paid, contributions will include interest for late payment at the plan's effective interest rate for the plan year to which the contribution relates.

Benefit restrictions. When determining whether Section 436 benefit restrictions apply to any plan year that includes the 2020 calendar year, sponsors can choose — but are not required — to use the plan's adjusted funding target attainment percentage (AFTAP) for the plan year ending in 2019. This relief could help sponsors avoid freezing benefits and continue to offer lump sums and other accelerated payment forms in 2020, even if the plan's funded status has significantly declined in the wake of the pandemic.

CSEC plans. The bill extends the special treatment available to DB plans sponsored by certain cooperative and small employer charities (CSECs) to some plans providing services to mothers and children, if those plans meet other specific and targeted conditions.

Relief for DC plan participants

The stimulus package includes several relief provisions for participants in DC qualified plans (including 403(a) plans), 403(b) plans and governmental 457(b) plans.

Relief for DC plan participants affected by virus

Coronavirus-related distributions. The legislation makes it easier for participants affected by the virus or the resulting economic downturn to access their retirement savings. Employers can let participants take up to \$100,000 in "coronavirus-related distributions" by Dec. 31, 2020, and retroactively treat distributions back to Jan. 1, 2020, as coronavirus-related. The distributions are exempt from the 10% penalty tax on withdrawals before age 59-1/2. Participants will have the option to repay all or part of their distributions within three years and have the repayment treated as a rollover. It's unclear if DB plans can make these distributions.

Higher plan loan cap. Plans can temporarily raise the loan limit — usually the lesser of \$50,000 or 50% of the vested benefit — for affected participants. For 180 days after the bill's enactment, affected participants can borrow up to the lesser of \$100,000 or their entire vested benefit.

Suspension of plan loan repayments. For all new or existing plan loans to an affected participant, any repayment due date on or before Dec. 31, 2020, must be delayed by one year (with interest charged during the delay, if applicable). The one-year delay does not count toward the maximum five-year repayment period for plan loans. However, participants can choose to continue making payments.

Qualifying individuals. The relief is available to a “qualifying individual” — defined as a participant who meets any of the following:

- Is diagnosed with SARS-CoV-2 or COVID-19 with a test approved by the Centers for Disease Control and Prevention
- Has a spouse or dependent diagnosed with SARS-CoV-2 or COVID-19
- Experiences adverse financial consequences from being quarantined, furloughed or laid off; having work hours reduced; being unable to work due to lack of child care; closing or reducing the hours of a business owned or operated by the individual; or from other factors, as determined by the Treasury secretary

Plan administrators can rely on a participant’s self-certification of eligibility for relief.

[RMD suspension for all DC plan participants](#)

The stimulus package waives all 2020 required minimum distributions (RMDs) from DC plans, including initial payments to participants who turned age 70-1/2 in 2019 and didn’t take those distributions last year. The RMD relief does not apply to DB plan participants.

[Plan amendment deadlines](#)

Nongovernmental employers have until the end of the first plan year beginning on or after Jan. 1, 2022, to amend their plans for the relief. Governmental employers have an additional two years. All amendments will be retroactive to the later of the date of the bill’s enactment or the effective date of the amendment.

Related resources

[Non-Mercer resources](#)

- [HR 748](#), the Coronavirus Aid, Relief and Economic Security (CARES) Act (Senate, March 25, 2020)
- [Section-by-section summary of the CARES Act](#) (Senate Health, Education, Labor & Pensions Committee, March 25, 2020)

[Mercer Law & Policy resources](#)

- [Roundup: Coronavirus \(COVID-19\) updated resources for employers](#) (March 24, 2020)
- [Mercer urges immediate funding relief for DB plan sponsors](#) (March 23, 2020)

- [Multiemployer pension rescue plan passes House, but Senate outlook dim](#) (Aug. 2, 2019)

Other Mercer resources

- [Martine Ferland's letter asking policymakers for DB plan relief](#) (March 18, 2020)
- [Stay informed on the coronavirus](#) (regularly updated)

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