Retirement Plan News and Information for Employers

MEASUREMENT + STRATEGIC PLANNING EDITION

Q3
2021

CARES Act Aftermath:
What Plan Sponsors Need to Do

SEPs, MEPs and PEPs – Discover the Differences and Ideas for Your Workplace Retirement Plan

2022 Deadline Nears:
Now is the Perfect Time to Review Your Retirement Plan Design

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CARES Act Aftermath:
What Plan Sponsors Need to Do

PANDEMIC RELIEF MAY BRING ADMINISTRATIVE PAIN TO PLAN ADMINISTRATORS

Post-CARES Act clean-up. What plan sponsors need to know about subtle retirement plan changes, updates and things that stayed the same.

#401kCompliance #CARESAct #Employers

The CARES Act gave plan participants quick access to funds during the COVID crisis. Although only about 6% of participants took advantage of the options offered.[1] However, as a plan sponsor you must understand your own obligations and how to keep your plan in good standing.

In most cases, the Coronavirus Aid, Relief, and Economic Security (CARES) Act did not change administrative procedures; however, it did raise a few compliance questions. With the subtle complexities involved, it is a best practice for plan sponsors to stay in close communication with their trusted administrator and, if necessary, ERISA counsel.

Coronavirus-Related Distributions

The CARES Act allowed qualified individuals to receive a "coronavirus-related distribution" ("CRD") in the year 2020. Generally speaking, to qualify, a person or their spouse must have been economically affected by, or diagnosed with, COVID-19.

What the CARES Act allowed:

- Withdrawing up to $100,000 from their retirement plans and/or IRAs.
- Waived the 10% excise tax for early distributions (pre-age 59 1/2).
- Allows recipients to be taxed on the distribution over three years.
- Allows recontribution the amount received to the distributing plan or IRA or to another plan or IRA within three years after the date the distribution was received.

1 Vanguard. "Revisiting the CARES Act and its impact on retirement savings." January 2021.

A FEW QUESTIONS RAISED:

1. Is a plan required to accept a recontribution of a CRD?

No. While CRD repayments are considered rollovers, a plan is not required to accept them. If the plan does not accept rollovers, it does not have to be changed to accept rollovers or recontributions. A plan that does accept rollovers should review the recontribution of a CRD under the same procedures that apply to any other rollover contribution.

2. Is a recontribution of a CRD a rollover?

Yes. A plan administrator accepting a recontribution of a CRD must reasonably conclude that the recontribution is eligible for rollover treatment.

Even if a plan did not make CRDs available, qualified individuals who received distributions under existing plan provisions, either as in-service withdrawals or termination distributions, can designate those distributions as CRDs. This could, for example, make a hardship withdrawal eligible for recontribution.

Participants who received distributions may be informed of their ability to repay CRDs if they find they didn't need the entire amount they withdrew.

3. How do recontributions of a CRD impact the amount already reported as taxable income?

Individuals may report one-third of the CRD amount as taxable income in each of three years, beginning with 2020. Alternatively, individuals may report the entire amount as taxable income on their 2020 tax returns and pay the associated taxes. ***However, the participant's tax reporting is irrelevant from a plan perspective.***

An individual may recontribute all or any portion of the CRD as a rollover to a plan or IRA within three years of receipt and avoid taxation on that amount. Any participant is responsible for obtaining his or her own tax advice.

Coronavirus-Related Loans

What the CARES Act changed:

- **Limits increased.** The CARES Act increased the $50,000 limit on loans to $100,000 and the cap of 50% of the borrower's vested balance to 100% for loans from defined contribution plans for qualified individuals made from March 27, 2020 through September 22, 2020.
- **Repayments delayed.** Qualified individuals could elect to defer repayments on their plan loans that would occur from March 27 through December 31, 2020 for up to one year. Repayments for such a loan are adjusted to reflect the delayed due date and any accrued interest during the delay when they resume. The delay period is ignored in determining the five-year maximum period for a plan loan.

A FEW QUESTIONS RAISED:

1. Must plan administrators provide notice to current employees who have outstanding loans that changed?

Qualified individuals who suspended loan repayments should have been notified that repayments resumed and that their loan was re-amortized for the remaining period of the loan to account for the accrued interest during the suspension period.

2. How will a loan "rolled in" from a prior employers' plan by a new employee impact the plan?

Nothing changes. If a plan accepts rollovers of loans from other plans, the plan's existing procedural rules still apply.

3. What happens to the loans of newly exited employees?

Nothing changes. Most plans do not permit former employees to take plan loans and require repayment of loans upon employment termination. These plans are not required to change. If a plan permits terminated employees to continue to repay outstanding loans, normal procedures apply.

4. Should special guidance be given to employees who took a CARES Act loan and are about to retire?

No special notice is required, and normal loan procedures will apply. If a CARES Act loan has been taken, it is still a plan loan and normal disclosures will suffice.

Minimum Required Distributions

What the CARES Act changed:

- For 2020, all minimum required distributions were suspended.

A FEW QUESTIONS RAISED:

1. Was this required?

Most administrators suspended these payments, but the plan sponsor had discretion as to whether to implement the suspension. Payments for 2021 are required to be paid by December 31, 2021 (or April 1, 2022 for initial required distributions for 2021).

What Else Should I Know?

One other thing to keep in mind is to speak with your plan administrator because plan amendments for the CARES Act provisions implemented are required by the end of the 2022 plan year (the 2024 plan year for governmental plans).

While we look towards recovery, a lot of has changed, but most has stayed the same. Hopefully, these detailed particulars were helpful as you oversee your company's retirement plan. As you know, managing a retirement plan is no walk in the park, so when you have questions and would like to discuss in more detail, we are always here to help.

SEPs, MEPs and PEPs – Discover the Differences and Ideas for Your Workplace Retirement Plan

What are SEPs, MEPs and PEPs? Which one is right for your company's retirement plan?

#SEP #MEP #PEP #401(k) #QualifiedPlans

Just ask anyone: Uncle Sam and the retirement industry love acronyms. Another was added in December 2020—PEP—which conveniently rhymes with MEP and SEP. The three plan types are 401(k) cousins[1] meaning they share many fundamental similarities, and their main differences relate to the administrative models they use.

If you don't speak fluent tax code or understand complex legal jargon, you are in the right place! We're going to break down a few of the 401(k) abbreviations you may have heard about lately because once you know what the acronyms stand for, they really start to make sense.

1 A MEP can also be a defined benefit plan.

What is a SEP?

A **Single Employer Plan** (SEP)[2] is, as the name implies, sponsored by a single employer, including any controlled or affiliated group members. This is what most people think of when referencing a traditional 401(k) plan. A SEP is often the plan of choice for large, medium and small businesses as it can be easily customized to meet specific company needs. With a SEP, employers have total control over plan decisions and can work with a retirement plan specialist to help with fiduciary responsibilities.

What is a MEP?

A **Multiple Employer Plan (**MEP) is a retirement savings plan where multiple employers participate in a single plan. It is sponsored by one entity and adopted by one or more others, but here is the kicker: they need to share a common thread. Participating employers can't be related tax-wise but they are often members of an association or professional employment organization.

2 SEP can also refer to a Simplified Employer Plan, an IRA-based plan for self-employed individuals or small business owners with a few employees.

While there are various ways to set up a Multiple Employer Plan, to keep it simple, when we use the MEP acronym in this article, we are referring to a closed MEP. Member companies of a closed MEP are not required to file an individual 5500 report, undergo an annual plan audit and acquire individual ERISA bond protection.

What is a PEP?

A **Pooled Employer Plan** (PEP) is a pooled retirement plan, a type of Multiple Employer Plan that allows two or more unrelated employers to participate in a single plan. It's the new kid on the block, created by the SECURE Act of 2020 with an effective date of January 1, 2021. A PEP is offered by a group of employers who outsource all administration to yet another acronym—a PPP, or Pooled Plan Provider—a 3(16) fiduciary who establishes and administers the PEP.

The PPP is an important part of the PEP and has three fundamental models:[3]

- PPP is a TPA or advisor with no service provider affiliates or proprietary funds in a completely unbundled and unconflicted situation.
- PPP selects either affiliates as service providers or proprietary funds in a partially bundled solution.
- PPP uses affiliates and proprietary funds in a fully bundled approach.

How Do They Stack Up?

As with any solution, there are advantages and disadvantages; the same is true for selecting a type of 401(k) plan. There are so many variable options with each plan type, so here are a few key points to consider:

CUSTOMIZATION: SEPs offer the highest level of customization as each employer can build a plan to meet their specific goals. By contrast, MEPs and PEPs are built with the best interests of many in mind so individual employers may be limited on the elements they can customize.

TIME COMMITMENT: One of the key benefits associated with MEPs and PEPs is the ability to outsource administrative duties. This same sentiment is true within a SEP when you select specialized service providers committed to taking on fiduciary duties.

RESPONSIBILITY: No matter what, if you offer a retirement plan to your employees, you will carry some level of fiduciary responsibility. All 401(k)s plans allow you to offload plan operations and investment decisions to 3(16) Plan Administrator and a 3(38) Discretionary Advisor; the main difference with MEPs and PEPs is that both are determined by the plan; whereas, with a SEP, you have the ability to select all service providers.

TENURE: SEPs and MEPs have been around for a long time and are known entities. PEPs are still fresh out of the box and their effectiveness has yet to be determined.

HAVE QUESTIONS?
Call us today or schedule a virtual meeting to discuss which plan type could be best for your business.

3 Moore, Rebecca. "The PEP Opportunity." Plansponsor.com. September 2, 2020.

2022 Deadline Nears:

Now is the Perfect Time to Review Your Retirement Plan Design

Employers have a window of opportunity before next year to update their retirement plan designs and take advantage of a potential pandemic recovery. Learn about the Cycle 3 restatement deadline and what it means for your retirement plan.

#retirementplandesign #401kupdates

For the millions of business owners that offer a workplace retirement plan, the COVID-19 pandemic created many financial difficulties.

However, as the economic climate improves, there is an opportunity for employers to refresh their company's retirement plan. With an important plan document restatement deadline happening in 2022, there's never been a better time for employers to reevaluate their current plan design and, if necessary, add or update features that align with their business objectives and retirement plan goals.

Cycle 3 Deadline Is Next Year

Every six years, the IRS requires business owners to restate their pre-approved qualified retirement plan documents to ensure they are up-to-date and compliant with current regulatory and/or legislative changes. **A restatement means the plan document must be completely rewritten to reflect mandatory regulatory changes**, as well as any voluntary changes made to the plan since the last update. But don't worry, this is very normal and nothing to fear.

The latest restatement cycle for these plans began on August 1, 2020 and will close on July 31, 2022. It's known as "Cycle 3," since it's the third restatement period required under the pre-approved retirement plan program.

Since the last restatement period that ended in April 2016, there have been several legislative and regulatory changes that impact retirement plans. However, this restatement period doesn't include regulations introduced in the Setting Every Community Up for Retirement Enhancement (SECURE) Act and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. They must be addressed in separate, good faith amendments.

Restatement is mandatory. Plans that haven't complied by the deadline could face penalties from the IRS. Even newly established or terminating plans need to restate their plan documents.

The restatement period provides employers with an opportunity to enhance their existing retirement plans — especially in light of the pandemic. Updating the plan's design now could better position business owners, employees and companies for the future.

Plan Design Updates to Consider

Like many employers, you may be looking for ways to prepare your employees more effectively for retirement by increasing focus on plan design, investment performance and financial wellness. With these motivations top of mind, here are some plan design features worthy of consideration:

1. **Automatic savings features:** Adding auto-features like auto-enrollment and auto-escalation may improve plan participation and increase savings rates.

   Auto-enrollment enables employers to automatically enroll new hires into the retirement plan. To help maximize savings and improve outcomes, employers may want to consider enrolling new employees at a higher deferral rate, such as 6%, rather than the standard 3%. Under the SECURE Act, employers that implement auto-enrollment can also receive a tax credit. Additionally, employees can always opt out if they don't want to participate.

   With auto-escalation, employees' contributions are automatically increased every year. For example, employers can increase deferral rates by 1% each year up to a maximum of 15% of pay.

2. **Matching contributions:** Employers experiencing budgetary constraints may consider altering the match rather than terminating it. Instead of matching 100% of a 3% employee contribution, the employer could stretch the match, such as 25% match on a 12% contribution. It costs the same but may encourage higher savings rates since employees must increase deferrals to get the full match.

3. **Personalized solutions:** Workers value personalized, professional retirement planning education. With personalized income solutions and investment advice more widely available, these options may be worth a conversation.

4. **Financial wellness and emergency savings programs:** The pandemic was a harsh reminder that many Americans are unprepared for a financial emergency. Financial wellness and emergency savings account (ESA) benefits can support employees as they get their finances back on track and may encourage them to save so they can better weather the next inevitable storm.

The pandemic presented unprecedented challenges for employers that offer retirement plan benefits. With the future looking brighter and the Cycle 3 restatement deadline around the corner, now is the optimal time for business owners to review, and if necessary, update their plan design to confirm it aligns with your company's goals and cash flow obligations.

About Financial Network Limited

Financial Network Limited (FNL) was founded to provide personalized investment strategies for individuals and families, and distinctive employee benefit programs for employers. Nearly 30 years later, we remain an independent, family-owned and operated firm with the same mission and commitment: to provide comprehensive and innovative client solutions with the highest levels of professionalism and integrity.

We deliver extraordinary value through clear analysis and Fiduciary-focused oversight so our Clients can focus on their careers and families, not the administration of their retirement plan. We continue to refine our processes to improve Plan Sponsor practices and to promote superior Participant outcomes. No "consultant-speak", no "complicated explanations". Just simple, accountable results.

For more information on how we support retirement plan sponsors and participants, visit our website or contact us directly.

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