Principal®

Answering questions about COVID-19 and your retirement plans

We're all navigating a lot of uncertainty with the current COVID-19 pandemic. Here's what we know right now. Congress is working on a COVID-19 relief package which may extend assistance for plan sponsors and participants. Principal® is a member of the industry groups continuing to advocate for relief including the expansion of loan and hardship rules. As we learn more, we will communicate any updates directly to you.

In the meantime, we want to help by answering some of the questions we've heard most.

Q How do I handle late contributions?

A At this point, the Department of Labor (DOL) has not provided any new guidance due to the COVID-19 pandemic. If that should change, we will communicate any new guidance to you. For now, all current requirements still apply, including:

- **Employee contributions**
  In general, employee contributions must be submitted by the earliest reasonable date. For example, if a plan routinely has been able to deposit contributions within 3 business days, generally that timing standard must be followed.

- **Employer contributions**
  Generally, employer contributions, including matching contributions, must be made no later than 12 months after the close of the plan year. However, if you want to deduct the contribution for a taxable year, the contribution must be made by the due date (including extensions) for filing the employer's federal income tax return according to IRC §404(a)(6).

- **Safe Harbor contributions**
  Required Safe Harbor matching contributions and non-elective contributions made to a Safe Harbor 401(k) plan must be deposited no later than 12 months after the close of the plan year. However, if the plan uses the payroll period method, the required Safe Harbor match must be deposited no later than the last day of the next quarter.

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Q What if I need to delay matching contributions?

A If you need to delay funding of your matching contributions (or other employer contributions) but wish to continue the financial obligation of the match, you have until the tax filing deadline. This includes payroll period match calculations. For Safe Harbor plans, you have until the last day of the next quarter for the required Safe Harbor match. For example, a 401(k) Safe Harbor plan that matches through 3/31 would not be due until 6/30.

Q How do I reduce or remove the match or other employer contributions?

A If you want to stop funding or reduce the match or other employer contribution you will need to amend the plan document. If your contribution is discretionary, you don't need an amendment unless you have already been funding those contributions. For instance, if you have a Principal® drafted plan document, the language says that once funding of the discretionary contribution has started, it should be funded at that rate (or higher) for the remainder of the plan year. In order to avoid a potential 411(d)(6) concern, we suggest amending the plan and the match through the effective date or signature date of the amendment, whichever comes later.

Safe Harbor plans have additional rules and procedures for reducing or eliminating required contributions. Under current rules, an ADP/ACP Safe Harbor plan can eliminate the match/non-elective contribution prospectively at any time during the current plan year if the affected participants are provided with a notice at least 30 days prior to the effective date. Also, the amendment must be signed by the effective date. Keep in mind removing the match/non-elective contribution requires ADP/ACP and top-heavy testing for the year. The compensation limit for the year must be prorated for the period of the Safe Harbor contribution.

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Q How do I handle employees on leave?

A If all employees are placed on leave without pay, there will be no contributions. If you're required (or choose) to provide paid leave and it meets the plan's definition of pay, this will require both participant and plan sponsor contributions. Loans can be suspended if employees are on an unpaid leave of absence for up to 12-months.

Employees who may need additional money during this time can request an in-service distribution if they meet plan criteria such as age 59½ or available hardship options. They can also request a participant loan, if allowed by the plan.

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Q What about contributions for employees with reduced shifts or pay?

A If employees are being paid, but working at a reduced capacity, contributions are required according to the plan document. In most cases, you can choose to amend the plan document to remove employer contributions. Employees can also reduce their deferral elections to zero if needed during this time. If you need to amend the plan document to reduce or remove employer contributions and the plan is a Safe Harbor plan, participants will need to receive a notice of the change.

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Q Can I suspend participant loans?

A Loans can be suspended for a period of time, if reduced compensation does not cover the loan payment or creates a hardship. However, if the loan can be paid from compensation, loan payments should continue. You can follow the plan document and loan procedures to suspend the payments for a period of time, but the payments will have to either be made up, the loan re-amortized, or if no other option is available, defaulted and reported as taxable income.

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Q What happens if I need to reduce staff?

A Employees impacted by a staff reduction will experience a benefit event. If you face a significant reduction in force, for example 20% or more, the plan may be considered to have a partial plan termination which would require it to 100% vest the impacted participants.

Q What if I need extra capital to make employer contributions?

A At this point, the Department of Labor (DOL) has not provided any new guidance due to the COVID-19 pandemic. If that should change, we will communicate any new guidance to you. For now, all current requirements still apply.

- Review current contribution requirements: *See "How do I handle late contributions?"*
- Read more on suspending participant loans: *See "Can I suspend participant loans?"*

For defined benefit plans, talk with your actuary to help you determine your options.

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Q If I need to shut down operations, what are my options for contributions?

A If you intend to shut down operations for a period of time, first determine if employees will receive any eligible compensation during this time. Then consider these options:

- If there will be no payroll during this period, no deferrals or contributions will be made, and no action is needed. When employees come back from unpaid leave or layoff, they will resume contributions. Keep in mind, loan payments must continue during this time unless the participant is on an approved, unpaid leave of absence.

- If you continue to pay employees in some capacity, consider reducing or removing employer contributions from the plan. A plan amendment may be needed. You can also choose to inform employees about their ability to reduce or stop their deferral election. If your plan does not allow for a change in elections at this time, you may consider amending the plan.

o Find out more about reducing or removing employer contributions: *See "How do I reduce or remove the match or other employer contributions? "*

- Finally, if employees are still paid, you can choose to freeze the plan to future contributions through an amendment. Keep in mind, the plan freeze date must be a prospective date and employer contributions in a frozen plan must be 100% vested. When you're ready to resume contributions, the plan document will need to be amended to remove the freeze date. Loan payments continue while the plan is frozen.

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